The Oil Palm Complex

Smallholders, Agribusiness and the State in Indonesia and Malaysia

Edited by
Rob Cramb and John F. McCarthy

THE UNIVERSITY OF QUEENSLAND

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THE OIL PALM COMPLEX

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For
Aedan, Joshua, and Nathan

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PREFACE

The collaboration that led to this volume began in 2005 at a meeting in Toronto of the "Challenges of the Agrarian Transition in Southeast Asia" (ChATSEA) Project, with which we were both loosely associated. We decided our common interest in the oil palm boom and its implications for agrarian change in Indonesia and Malaysia could form the basis for a fruitful partnership and contribute to the output of original research on agrarian change engendered by the ChATSEA Project. Further impetus was provided by a research grant from the Australian Research Council—"Oil Palm and Agrarian Transition on the Indonesian and Malaysian Frontiers" (DP0771475) which ran from 2006–07 to 2009–10. This project supported our own research and the PhD studies of Piers Gillespie in Indonesia and Sunny Sanderson in Malaysia.

As well as pursuing individual studies in specific locales (particularly the provinces of Jambi and West Kalimantan in Indonesia and the state of Sarawak in Malaysia), we sought to compare and integrate our findings in order to understand the patterns of oil palm development in the region as a whole. As part of this comparative perspective, we organised a two-day workshop at the Crawford School of Public Policy, Australian National University, in 2010. Most of the contributors to this volume were participants in that workshop and we thank them for sharing their insights. Our research has continued over subsequent years, giving rise to a range of publications and finally culminating in this book. This decade-long research collaboration has been a challenging and rewarding experience. We hope this book will add to the discussion of this critical transition.

We are grateful to our respective institutions, the School of Agriculture and Food Sciences at the University of Queensland and the Crawford School of Public Policy at the Australian National

University, for their support. The funding provided by the Australian Research Council was essential to the completion of much of the fieldwork on which the research is based.

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John F. McCarthy is grateful to Zahari Zen, Zulkifli Lubis, Henri Sitorius, and colleagues at the University of North Sumatra for their many insights and for sponsoring two workshops in Medan; the Indonesian State Ministry of Research and Technology; villagers, NGO workers, company executives, government friends and officials in Jakarta, Medan, Jambi, West Kalimantan, and Riau for their warm hospitality, candour, and assistance; the Roundtable on Sustainable Palm Oil; and the Forest Peoples Program in Indonesia.

We are especially grateful for the support and forbearance of our wives, Jacky and Henny. We dedicate this book to the rising generation, especially John's son Aedan and Rob's grandsons, Joshua and Nathan, who will have ever greater complexity to contend with in the decades to come, but we are confident they have the character, ingenuity, and commitment to make a positive contribution.

Rob Cramb and John F. McCarthy
15 December 2015

CHAPTER 1

Introduction

Rob Cramb and John F. McCarthy

> **Complex:** Consisting of many different and connected parts…Not easy to analyse or understand; complicated or intricate…A group or system of different things that are linked in a close or complicated way; a network.[1]

The rapid expansion of oil palm in Malaysia and Indonesia over the past 30–40 years has transformed the rural landscape in complex and highly contentious ways, generating a plethora of economic, social, and environmental issues that have been widely addressed in the literature (Boxes 1.1, 1.2, and 1.3). In this book, rather than focus on a particular issue or dimension of the oil palm boom, we attempt to follow Clifford Geertz's (1966) injunction to "seek complexity and order it." We contend that the oil palm industry in Indonesia and Malaysia needs to be understood as a complex whole in which land, labour, and capital, the various modes of production in which they are combined, and the value chains into which they are inserted are closely interconnected across the region, giving rise to a discernible pattern of economic, social, and environmental outcomes over time. This is not a simple matter of multinational capitalist enterprises imposing their profit-making plans on reluctant rural communities. Rather, political, bureaucratic, and agribusiness actors at various levels, village authorities, small and large landholders, migrant workers, contractors, consultants, and civil society groups, each pursuing their perceived individual and collective interests and ideals, have interacted

in diverse ways, resulting in a complex array of production and supply systems, with highly contingent consequences for rural livelihoods. Nevertheless, as we first attempted to highlight in McCarthy and Cramb (2009), there is a convergence across the region in the dominant policy narratives, business strategies, modes of land acquisition, and labour processes associated with oil palm, giving rise to the characteristic features and trajectories of the Indonesia-Malaysia oil palm complex that we now seek to describe and explain in this book, with the help of colleagues from a range of disciplines and perspectives. Figure 1.1 shows the region as a whole and the states (Malaysia) and provinces (Indonesia) referred to in the chapters that follow.

Byerlee (2013) reminds us that extensive market-driven investments in land development during commodity booms are nothing new. In particular, he reviews what he terms the "first era of globalisation" from the middle of the nineteenth century up to World War I. "Then, as now, rapid industrialisation (at that time in Europe, North America, and a bit later, Japan) produced growing consumer incomes and rising demand for food and industrial raw materials, in a context of sharply reduced transport costs and liberalisation of trade, foreign investment, and international migration" (Byerlee 2013: 21). The lessons Byerlee draw from this period are that farmland investments have always been very cyclical; investments have been largest in the four or five classic plantation crops, including oil palm, where economies of scale in processing encourage (if not necessitate) investment in large-scale production entities; failure rates have often been high, frequently resulting in subsequent rounds of corporate consolidation. The potential of smallholders to engage in commercial agriculture has also been consistently underestimated by both governments and investors.

BOX 1.1 – ECONOMIC ISSUES

The economic issues to which the oil palm boom gives rise include one of the key questions addressed in this book—specifying the conditions under which oil palm can provide the greatest contribution to sustainable rural livelihoods. These conditions relate to balancing the trade-offs between subsistence and commercial farming, between commodity specialisation

Figure 1.1. Malaysia and Indonesia showing the states/provinces referred to in this volume (CartoGIS, Australian National University)

and diversification, between smallholder and large-scale forms of production, and between private- and public-sector involvement in supporting or managing oil palm development. The boom has also created an unprecedented demand for migrant plantation labour, affecting the livelihoods of poor rural households throughout the Indonesian archipelago. There are also macro-economic issues, partly addressed in the book, relating to consumer preferences for sustainably produced commodities in importing countries, especially in Europe; the alternative uses of palm oil in the production of oleochemicals, including for biofuels; and the exposure of what have become highly specialised rural economies to instability in global vegetable oil and biofuel prices. (Barlow 1986; Barlow et al. 2003; Casson 2000; Cramb and Sujang 2011, 2013; Dauvergne and Neville 2010; IDEAL 1999; IFC 2013; Li 2015; McCarthy 2010; Pye and Bhattacharya 2013; Rival and Levang 2014; Sayer et al. 2012; Zen et al. 2005)

In the past three to four decades, a second period of globalisation has in many ways seen history repeated, with the oil palm boom a major phenomenon. The resurgence of the corporate plantation has been the most significant way in which the second era has mirrored the first (Figure 1.2). The differences between the two eras identified by Byerlee (2013) are that high social impacts of large-scale investment in crop production previously centred on the exploitation of plantation labour. Now, however, conflict over land rights has become a major concern (though as Li (2011) argues, labour issues remain important); that in the second era, South-South investments in production operations are much more important than the North-South investments of the colonial and immediate post-independence periods; and that there is now considerable historical evidence for the dynamism and economic success of smallholders, who have come to dominate industries such as rubber. It can be added that, compared to the first era, global financial markets have expanded enormously and have come to exercise an ever greater influence on the organisation of agricultural production (Bernstein 2010: 126, Fairbairn 2014). Byerlee concludes that "historical experience has shown the importance of providing a level playing field for smallholders. Where support services have been put in

place, including research, extension, land-tenure security, and finance, a vibrant smallholder sector has eventually emerged to dominate the industry. This has not only alleviated land conflicts, but also promoted inclusive rural development" (Byerlee 2013: 39).

However, in both the first and second eras of globalisation, plantation interests have attempted to block or minimise such smallholder-oriented development. This was the case with rubber in the colonial era (Barlow 1978) and has been even more evident during the current oil palm boom. Notwithstanding the ideology of market liberalism that underpins the current globalisation agenda, the plantation sector has successfully sought government intervention to facilitate and protect its access to and control over cheap, unencumbered land and a low-wage, dependent labour force (just as during the colonial era). The expansion of independent or state-supported smallholders is seen by many in the plantation sector as undermining both these aspirations.

BOX 1.2 – SOCIAL ISSUES

Related to the economic concerns are pressing issues of social justice, raised by both national and international commentators and activists, and which are also central themes of this book. These include the allocation of vast areas of public land and forests for large-scale commercial development for the benefit of a small number of agribusiness firms and their patrons in the political and bureaucratic elite; the politico-legal undermining and overriding of customary claims to land that has often accompanied this "land grab"; the increasingly unfavourable terms on which landholders and settlers have been incorporated into large-scale development schemes; the potential for conflict within unequal local communities, between local and migrant growers, and hence between different ethnic groups; and the precarious working and living conditions of migrant plantation workers. (Borras et al. 2011; Casson 2000; Colchester et al. 2006, 2007; Cramb 2011, 2011b; Deininger 2011; Deininger and Byerlee 2011; De Koninck et al. 2011; IDEAL 1999; IFC 2013; Li 2015; McCarthy 2010; Majid Cooke 2002; Margono et al. 2014; Obidzinski et al. 2012; Pye and Bhattacharya 2013; Rist et al. 2010; Rival and Levang 2014)

Figure 1.2. The rapid growth of corporate plantations in Malaysia and Indonesia has been a feature of the oil palm complex (Photo: Eky Studio/ Shutterstock)

This tension between the interests of plantations and smallholders has led to the promotion by governments and development agencies of intermediate production arrangements that are described and analysed in Chapter 2 and discussed throughout the book (e.g., managed smallholdings, nucleus estate and smallholder (NES) schemes, and various forms of joint venture between plantation companies and smallholders). Nevertheless, as the current era of globalisation unfolds, the ideology of "rolling back the state" combined with the shocks of the Asian (1997–98) and global (2007–08) financial crises have prompted the disengagement of governments from agricultural development. The most significant changes include the removal of subsidies and services that previously supported smallholders and the shift away from settler, contract farming, and outgrower schemes for smallholders towards investor-managed, dividend schemes with minimal smallholder engagement. This has occurred alongside increased concentration in the ownership of agribusiness corporations and intensification of their control over commodity value chains (Weiss 2007, Bernstein 2010). Yet, amongst this dominant plantation sector, there is a resurgence of smallholder oil palm, suggesting that the experience

with rubber since the colonial era may indeed be reprised (Barlow 1986, Byerlee 2013).

Given the crucial but changing and often contradictory role of the state in this expanding oil palm complex, it is necessary to understand not only the technical and economic characteristics and merits of small- and large-scale oil palm production and the functioning of the palm oil value chain, but also how oil palm is inserted into particular political regimes at local, national, and regional levels and how these regimes shape the outcomes of the oil palm boom in particular ways. This political economy perspective leads us to ask: Who wins and who loses from oil palm development? Under what conditions can oil palm development provide a basis for inclusive and sustainable rural development? What processes create new vulnerabilities for the rural poor? Can the employment opportunities provided by oil palm development help migrant workers and their families escape poverty? What policies, schemes, and contractual arrangements are likely to lead to better development outcomes? How do interventions emerge that support such beneficial outcomes? How successful are forms of civic or private regulation in reducing the risks to livelihoods and the environment associated with the oil palm boom? These are the key questions addressed by the contributors to this volume and which we return to in the final chapter.

To provide the political economy context for the individual studies presented in subsequent chapters, we first discuss the economic parameters, political settlements, and growing regionalisation of the Indonesia-Malaysia oil palm complex.

BOX 1.3 – ENVIRONMENTAL ISSUES

The environmental issues arising from oil palm development have perhaps attracted the most widespread global concern. Particular controversy surrounds the extensive conversion of tropical rainforests to oil palm monocultures, entailing a significant loss of biodiversity and ecosystem functions and the endangerment of highly-valued endemic species such as the orangutan in large regions of Sumatra and Borneo. Nearly half the oil palm planted in Malaysia and Indonesia has involved some form of forest destruction and 70 per cent of Indonesia's oil palm plantations

are on land which previously formed part of the national forest estate (FoE 2003; CAO 2009: 13). The ongoing use of fire in land clearing, especially in Indonesia and despite government bans, regularly causes destructive forest fires and persistent air pollution, seriously affecting populations in the region–most severely in 2015 (Figure 1.3). The extension of land clearing for oil palm development onto steeper land in the interior has accentuated soil erosion and pollution of waterways, while the clearing and draining of coastal peatlands has resulted in subsidence, the risk of long-term inundation, and the loss of environmental services; up to 15 per cent of oil palm in Malaysia and around 25 per cent of oil palm in Indonesia has been established on peat (Wetlands International 2010). The breakdown of forest biomass and peat soils, whether accelerated or not by burning, results in a flux of CO_2 into the atmosphere that is only partly offset by the growth of the palms or the substitution of biofuel for petroleum; it has been estimated that half a billion tonnes of carbon dioxide a year are emitted from Indonesia's peatlands (Hooijer et al. 2010). In addition, the milling of oil palm fruit to produce crude palm oil (CPO) generates large amounts of waste, which can lead to localised water and air pollution. These environmental issues are closely linked to the economic and social issues outlined above but we do not address them in detail in this volume (Barnes et al. 2014; Bennett et al. 1996; Bryan et al. 2013; Butler et al. 2009; Carlson et al. 2012; Lian and Wilcove 2008; Hooijer et al. 2006, 2010; McCarthy 2012a; McCarthy and Zen 2010; Pye and Bhattacharya 2013; Rival and Levang 2014; Sayer et al. 2012; Shiel et al. 2009; Tanaka et al. 2009; Tisdell and Nantha 2009; Venter et al. 2009; Wicke et al. 2008; Varkkey 2012, 2013; Wetlands International 2010).

ECONOMIC PARAMETERS

The relative roles of Malaysia and Indonesia in the oil palm complex correlate with the structural differences between the two economies. The World Bank (2007) characterises Indonesia as having moved from the status of an "agriculture-based country" to join the cluster of "transforming countries" in which "agriculture contributes less to

Figure 1.3. Fighting fires in Sumatra unleashed by land clearing for oil palm in 2015 (Photo: Associated Press).

growth, but poverty remains overwhelmingly rural [and] growth in agriculture and the rural nonfarm economy is needed to reduce rural poverty and narrow the urban-rural divide" (World Bank, 2007: 30). The same report considers Malaysia to be now an "urbanised country" in which around three-quarters of the population lives in urban areas, urban poverty now outweighs rural poverty, and agriculture contributes only a small percentage to economic growth, though agribusiness and the food industry still make up around 30 per cent of the economy (World Bank 2007: 37).

The economic indicators in Table 1.1 help to highlight this contrast. Compared to Malaysia, Indonesia has six times the total land area, seven times the area of agricultural land, and over eight times the population, hence one-and-a-half times the population density.[2] Though Indonesia has slowed its rate of population growth more than Malaysia (currently 1.2 per cent compared with 1.7 per cent), in both countries the rate of growth of the rural population has become negative. Yet almost half the Indonesian population remains rural, compared with just over a quarter in Malaysia. Hence Indonesia's rural population is 15 times Malaysia's. Although the ratio of rural population to agricultural land varies considerably across Indonesia,

Table 1.1. Economic indicators for Indonesia and Malaysia, 2012

Indicator	*Indonesia*	*Malaysia*
Area (sq. km)	1,922,570	329,847
Agricultural land (% of total)	30.1	24.0
Population (millions)	246.9	29.2
Population density (persons per sq. km)	128.4	87.9
Population growth (annual %)	1.2	1.7
Population aged 15–64 (% of total)	65.6	68.2
Rural population (millions)	119.9	7.8
Rural population (% of total population)	48.6	26.6
Rural population growth (annual %)	–0.3	–0.9
Rural population per sq. km of agricultural land	207.2	98.5
Population in cities of >1 million (% of total population)	8.9	13.4
Age dependency ratio (% of working-age population)	52.4	46.7
GDP (constant 2005 USD, millions)	427,483	197,794
GDP growth (annual %)	6.2	5.6
GDP per capita (constant 2005 USD)	1,732	6,765
Agriculture, value added (% of GDP)	12.8	10.1
Agriculture, value added (annual % growth)	3.4	0.8
Employment in agriculture (% of total employment)	38	13
Agriculture value added per worker (constant 2005 USD)	970	9,285
Minimum wage in 2012 (converted to USD per yr)	1,087	3,107

Sources: World Bank, 2013. Economic indicators, http://data.worldbank.org/indicator (accessed 13 Sept. 2013), Wikipedia, 2013. List of minimum wages by country, http://en.wikipedia.org/wiki/List_of_minimum_wages_by_country (accessed 11 Dec. 2013).

Note: As at 15 December 2015, USD 1 = MYR 4.32 = IDR 14,056

on average it is more than double that of its neighbour. Thus, in much of Indonesia people remain highly dependent on rural, land-based, even subsistence-oriented livelihoods, hence the arrangements for incorporating them in (or excluding them from) oil palm developments are crucial to reducing rural poverty.

Following the Asian financial crisis of 1997–98, both economies have resumed moderately rapid growth of around 5–6 per cent (Table 1.1). Given Indonesia's size, its GDP is more than double Malaysia's, but Malaysia's GDP per capita is almost four times Indonesia's. Hence, Indonesia is classified as a lower-middle income economy while Malaysia is an upper-middle income economy. The agrarian transition underway in both economies means that the agricultural sector's share of GDP has declined to 13 per cent in Indonesia and 10 per cent in

Malaysia. However, agriculture's share of employment in Indonesia remains three times that of Malaysia—38 per cent compared with only 13 per cent. The productivity of agricultural labour in Malaysia (measured as agriculture value added per worker) is nearly ten times that of Indonesia and rural wages are around three times higher.

In sum, though both economies are undergoing the structural transformation associated with modern economic growth, Indonesia has much more land and agricultural labour than Malaysia but much lower per capita income and a higher incidence of rural poverty. The connection between poverty and access to land remains intact in many parts of Indonesia, particularly in more remote areas. Hence, Malaysia has led the way in both private and public investment in oil palm development, while Indonesia has an abundant, low-income rural labour force with the incentive to migrate to centres of oil palm expansion, both within Indonesia and in Malaysia. As we will see, these complementarities have played a key role in the emergence and structure of the oil palm complex.

POLITICAL SETTLEMENTS

Recent work on the politics of development places the analysis of political settlements at the centre of policy studies. This work draws attention to the role of long-lasting elite arrangements as well as short-term elite bargains in shaping dominant forms of public action. In short, this suggests that we need to understand the politico-economic dynamics that drive specific sets of politicians and state officials, located in specific levels of the state system, to activate state capacities in particular institutions and agencies for specific policy ends (Hickey 2013). As we will see at various points in this book, the nature of elite alignments—or political settlements—around oil palm remain central to the oil palm complex. Indeed, the political settlements that have been negotiated in the two countries are just as important to an understanding of the oil palm complex as are the structural economic differences between them.

Malaysia is a federation in which state governments retain significant powers. In particular, the Borneo states, Sabah and Sarawak, entered the Malaysian Federation in 1963 with a high degree of autonomy, particularly with regard to control over land and forest resources. Case (1993) has characterised Malaysia as a "semi-democracy"

in which the allocation of resources and benefits at the federal level has been tightly controlled for the past 50 years by the ruling National Front (Barisan Nasional, BN)—a political confederation that has grown to include 13 individual parties, most of them ethnically based and some confined to particular states. The United Malays National Organisation (UMNO) has remained the dominant party, not only within BN, but in the Malaysian parliament (Crouch 1996).[3] Gomez and Jomo (1999) have documented the nature and extent of crony capitalism that has developed under UMNO rule.[4]

Given UMNO's political power and its commitment to Malay advancement, Malaysian Chinese business interests have become increasingly beholden to the political elite, though arguably not to the same degree as seen in Indonesia in past decades (Crouch 1985: 23). In particular, the relationship between the ruling Malay elite and Chinese business changed significantly with the inauguration of the New Economic Policy (NEP) in 1971, following sectarian violence in Kuala Lumpur in 1969. The NEP was a 20-year affirmative action program aimed at reducing Malay poverty and increasing the Malay share of the economy, at the expense of both foreign and Chinese shares. Among its effects were a much greater degree of state involvement in the economy and the creation of a new class of Malay business interests, heavily dependent on state patronage. These close state-business relations are clearly evident in the oil palm industry. As Pye (2009: 88) has argued, "the palm oil industry is a key plank in Malaysia's development strategy and the influence of the state has surpassed the kind of corrupt nepotism found in Indonesia. The state not only controls significant investment and some of the largest companies directly; it has also actively intervened to forge a kind of 'palm oil industrial complex', linking state and private corporations, ministries, and palm oil sector organisations in the national interest" (*see also* Chapter 13).

The dependence of UMNO on rural Malay support meant that costly rural development projects such as irrigation schemes for paddy farmers and oil palm settlement schemes for the rural poor were unquestioned priorities. The state had both the financial means and the motivation to maintain large, well-resourced agencies—notably, the Federal Land Development Authority (FELDA) and the Federal Land Consolidation and Rehabilitation Authority (FELCRA)—to implement managed smallholder schemes on a broad scale, ensuring

both tightly controlled management of the projects and effective political control of the settler population (Barlow 1986; Halim Salleh 1991; Pletcher 1991; Drabble 2000: 219–24). The role of FELDA and FELCRA in oil palm development is discussed in Chapter 2.

The political economy of the Borneo states (Sabah and Sarawak) is quite different from that of Peninsular Malaysia (Leigh 2001). Here Malays, Chinese, and Dayaks make up similar proportions of the population and shifting alliances of state-based political parties have ruled for much of the past 50 years. Only in the past ten years has UMNO gained ascendancy in Sabah, while Sarawak's political and business elite has resisted the entry of UMNO and its voracious business machine—instead, it has developed its own style of crony capitalism (Chapter 6). The widespread presence in Sabah of peninsula-based plantation companies, including FELDA, contrasts with their much smaller role in Sarawak, where local companies, many owned by local timber tycoons, predominate.

One distinctive feature of Malaysia's political economy that has had a significant impact on oil palm development is the legacy of British legal institutions. Though the Malaysian judiciary has been plagued by allegations of politically motivated appointments, malpractice, and corruption (Ramakrishnan 2005), there has been sufficient judicial independence in recent decades for common law arguments in favour of the rights of customary landholders to prevail against pro-development government statutes and the sometimes excessive actions of private plantation companies and government land development agencies (Chapter 6).

In contrast to Malaysia, Indonesia emerged from the colonial period and the upheavals and rebellions of the Sukarno era as a centralised, unitary state, in which the military played a significant role. One view of the New Order (1965–98), instituted by President Suharto, characterizes it as a long period when authoritarian, centralised government accompanied a system of predatory capitalism, where "private wealth was accumulated through systematic and privileged access to, or control over, public resources and institutions" (Hadiz 2012: 73). During this period, a small number of wealthy, family-based conglomerates emerged with close links to the political elite and the military. These conglomerates initially derived their wealth from privileged access to timber licenses and then came to dominate oil palm development (analogous to the situation in Sarawak

described above). However, at the same time, the New Order had many characteristics of a developmental state. During this period of developmental planning, technocrats working with key donors also sought to use oil palm production as an instrument of rural development. For instance, the state used its power to dictate the terms of agribusiness investment, insisting that plantations include small farmers in what was known as the NES scheme under what, in hindsight, were comparatively generous conditions (Chapters 2 and 3).

The Indonesian legal system is a Dutch-derived system of civil law based on the judicial interpretation and application of (sometimes conflicting) statutes and regulations, as opposed to the use of precedents as in the common law system in Malaysia. Indonesia's legal system remains one "characterized by conceptual inconsistency and conflicting rules" (Bedner et al. 2008: 190). For decades, the subservience of the legal system to the predatory demands of the New Order regime (Crouch 2010) reduced the scope for advancing claims based on customary law (*adat*) relative to the somewhat greater scope in Malaysia mentioned above. Recently, the country has made cautious progress in this respect, especially after the National Assembly mandated agrarian reform in 2004 and Indonesia's highest court ruled in 2012 that the government should recognise the customary land rights of villages within the forest estate.

After the fall of Suharto in 1998 (in large part precipitated by the Asian financial crisis, which had greater impact on Indonesia than Malaysia), Indonesia emerged as a more decentralised democracy where significant areas of authority were devolved to district governments (Crouch 2010; Hill 2014). As a consequence, higher-level political and economic actors have increasingly reached down to involve themselves with district-level legal and institutional mechanisms, shaping agricultural and natural resource outcomes in complex ways (McCarthy et al. 2012a). To a large degree, the oligarchic networks established by political-business elites and their cronies continue to control the natural resource sectors at the district level, albeit through a "distinctly money politics-fuelled kind of electoral democracy" (Hadiz 2012: 72). Thus, although there are signs of a consolidation of democratic processes and institutions since the end of the New Order in 1998 (Ford and Pepinsky 2014), in many respects the structure of property rights and the production systems underlying the political economy of natural resources inherited from the New Order period have remained

largely intact (McCarthy 2012). This occurred even as, following the Asian economic crisis, policymakers embraced more market-liberal policies, withdrawing state support from the type of rural development policies evidenced by the NES model.

REGIONALISATION

One key shift has that has become increasingly apparent in the past 10 to 15 years is the regionalisation of the oil palm industry. As Pye (2009: 89) writes, "the symbiosis of economic and political power located within the [Malaysian] palm oil industrial complex has important ramifications for the way in which palm oil expansion is conducted across the region. State and corporate interests are combined in such a way that environmental or social concerns are subjugated beneath a general strategy of development and accumulation linked to a continuous growth of the sector." A key factor here is the common culture between Malaysia and Indonesia that facilitates the integration of business and policy elites. Apart from language and ethnic mix (notably the importance of ethnic Chinese in the business sectors of both countries), the countries share a political and business culture (Varkkey 2012). Across the region, patterns of political patronage remain central to prevailing political settlements, whereby politically connected "advisers" and "commissionaires" (sometimes with a military background) are put on the company payroll or the board of directors to facilitate access to land and provide an easy path through the regulatory regime.

For instance, in Indonesia, major oil palm interests invest in the political system by offering commissionaire positions to key departmental officials (active and retired) and actively providing financial and other kinds of support to actors on influential parliamentary committees. In parallel, political parties and their leaders forge formal relationships with wealthy donors and business tycoons, ensuring their interests are represented in future policy discussions and legislation (Warburton 2014). In some cases, key politicians themselves are significant shareholders of major oil palm groups. For instance, Aburizal Bakrie, a powerful politician (at various times minister and chair of the major political party, Golkar, and a presidential aspirant) is also a wealthy businessman who manages his family conglomerate, the

Bakrie Group, which is reported to control around 125,000 ha of oil palm (Varkkey 2012).

After the Asian financial crisis, when many Indonesian corporations became insolvent, the Malaysian state took the opportunity to facilitate oil palm investment in Indonesia by both "government-linked companies" such as Sime Darby and Tabung Haji Plantations and politically well-connected private corporations such as Kuala Lumpur Kepong and IOI Corporation.[5] Government-linked companies account for up to 70 per cent of Malaysian capital invested in Indonesian plantations (Varkkey 2013: 388). In 1999, the Malaysian government initiated the Jakarta-based lobby group, the Association of Palm Oil Plantation Investors of Malaysia in Indonesia (APIMI), which is chaired by Sime Darby and includes all 18 Malaysian companies operating in Indonesia (Varkkey 2013: 389). APIMI has access to high-level meetings between the two governments. The Indonesia-Malaysia Oil Palm Group was established in 2010 to further facilitate industry relations (Varkkey 2013: 390).

Oil palm policy in Indonesia has long depended on "public-private partnerships" (McCarthy et al. 2012b). The regionalisation of the industry means that such partnerships have now extended in new ways. Indonesian and Malaysian state and corporate actors have mobilised around a strategy that allows Indonesian companies to upgrade into more productive systems through access to Malaysian capital and technology, while allowing Malaysian companies access to land and labour for upstream investment, as well as to crude palm oil (CPO) for their high-value downstream industries. As discussed further in Chapters 13 and 14, these cross-cutting political and business relations remain central to the oil palm complex.

While state facilitation of the industry's regionalisation has allowed investment to flow from Malaysia into Indonesia, equally important has been the state policies allowing for the flow of migrant plantation labour in the opposite direction. Hall (2011b: 509) reviews the impact of crop booms on various forms of internal and regional migration in Southeast Asia, including relocation to work as labourers for plantations or richer smallholders, observing with regard to the latter form that "its most spectacular current manifestation is the hundreds of thousands of (mostly) Indonesian foreign workers on Malaysian oil palm plantations." According to Pye et al. (2012), over one million migrant workers, mostly from Java, Sumatra, Sulawesi, Lombok,

Sumbawa, and Flores, are employed by oil palm estates and mills in Malaysia (Chapter 12). Hall remarks that "the Malaysian government has taken a contradictory stance toward migrants (and particularly undocumented migrants). It relies on migrants and encourages them to come to the country, with state officials frequently calling for more foreign workers to enter the oil palm sector. It also, however, engages in a range of repressive policies toward them, including repeated expulsion drives" (2011: 522). However, the insecurity that this engenders can be seen as inherent in the political economy of the oil palm complex because it provides plantation companies with "flexibility" in hiring and firing workers (Pye et al. 2012; Chapter 12).

A further aspect of the regionalisation of the industry has been the formation of the Roundtable on Sustainable Palm Oil (RSPO) in 2004, with the objective of "promoting the growth and use of sustainable oil palm products through credible global standards and engagement of stakeholders" (RSPO 2012). The RSPO is based in Zurich, with its secretariat in Kuala Lumpur and an office in Jakarta, and brings together a variety of actors within the global oil palm complex, including oil palm producers (plantation companies and smallholders), palm oil processors or traders, consumer goods manufacturers, retailers, banks and investors, and both environmental and developmental non-government organisations (NGOs). The RSPO, along with a number of other certification systems, provides "norms of good practice" and a means of benchmarking each country's regulatory framework (Paoli et al. 2014). By March 2012, the RSPO claimed six million tonnes (in terms of annual production capacity) of Certified Sustainable Palm Oil (CSPO), representing about 13 per cent of global palm oil production (RSPO 2012). Moreover, it has provided leverage to non-government organisations (NGOs) and social movements, leading to on-ground improvements in particular cases (McCarthy 2012, Forest Peoples Programme and Sawit Watch 2012). Yet, overall, progress remains difficult, as is to be expected of any attempt to achieve collective action on this scale and across such diverse interests.

Debate over the ability of the RSPO and other certification systems to change distributional and environmental outcomes in a more encompassing way continues. Questions remain concerning RSPO's ability to represents all "stakeholders" and the effectiveness of RSPO mechanisms to discipline plantation companies or otherwise address grievances, safeguard local livelihoods, and protect the rights of

indigenous people (McCarthy 2012, Larsen et al. 2013, Fortin and Richardson 2013). One view is that RSPO has to be understood within the context of the "transnational state apparatus" developed by Malaysia and Indonesia since the 1990s to advance and protect the private interests of the large-scale oil palm sector. The RSPO "privileges business interests in general and export-oriented palm oil companies and downstream industries along the value chain in particular, whereas smallholders, plantation workers, and indigenous peoples are marginalised through different structures and processes, contributing to an actual depoliticisation of socioecological conflicts" (Pichler 2013: 370). While the degree to which corporate interests dominate RSPO's institutional arrangement remains open to discussion, the RSPO clearly represents a compromise between the agendas of corporate actors and social movements (McCarthy 2012). The contribution of RSPO to the overall trajectory of the Indonesia-Malaysia oil palm complex is assessed by Pye in Chapter 13, and its impact (or lack of impact) on specific cases is evident in other chapters.

OVERVIEW

The chapters that follow are based on studies that apply to the oil palm complex as a whole as well as case studies in particular locales within each country. They can be grouped into five themes. The first group comprises this introductory chapter and Chapter 2, where we analyse the elements of oil palm production in Malaysia and Indonesia to provide a framework for the chapters that follow, including a systematic overview of the ways in which land, labour, and capital have been mobilised and combined in different modes of production.

The second group explores the different modes of oil palm production in practice and the circumstances that give rise to different livelihood outcomes, both within and between given modes. In Chapter 3, Zahari Zen, Colin Barlow, and John F. McCarthy survey Indonesian government policy over three decades, considering how the state has used oil palm as a major tool of rural socio-economic improvement. The chapter compares the economic and social performance of various initiatives, appraising the variability in outcomes during the Suharto and post-Suharto periods. In Chapter 4, John F. McCarthy and Zahari Zen analyse the processes shaping oil-palm-related agrarian change in different villages in Jambi, Sumatra. They

find that outcomes associated with oil palm expansion are highly variable. Analysing processes driven by particular modes of agribusiness expansion and those linked to the independent expansion outside the ambit of estates, they examine how each shapes the participation of smallholders in the oil palm boom in different ways, leading to characteristic distributional outcomes and trajectories of agrarian change. In Chapter 5, Lesley M. Potter considers the situations of independent and tied smallholders in Indonesia and looks for alternatives that have greater potential to increase farmer welfare. Based on fieldwork and literature regarding oil palm smallholders in Costa Rica, Cameroon, and Ecuador, she considers three alternative pathways to smallholder development in planned landscapes.

Still in the second theme, but shifting the focus to Malaysia, Chapter 6 examines the political economy of large-scale oil palm expansion through a case study of Sarawak. The policy convergence on the estate mode of production at the expense of support for smallholders is clearly evident, but a counter-movement is also at work, notably through the successful assertion of common-law or customary rights to land. In Chapter 7, Rob Cramb and Patrick Sujang focus on the more recent emergence of oil palm smallholders within the interstices of the plantation landscape in northern Sarawak, finding that smallholders can do very well by incorporating oil palm into their livelihood portfolios, despite the overwhelming support given to private plantations.

The next group of chapters explores the nature of the conflicts arising from contested approaches to oil palm development. In Chapter 8, Patrice Levang, Wahyu Riva, and Meri Orth argue that NGO and social movements tend to present oil palm as an evil crop. In contrast to these accounts, this chapter sets out to gain a better understanding of the reasons behind hundreds of violent conflicts associated with oil palm, showing that most conflicts are not due to a rejection of oil palm but stem from abuse by companies and dissatisfaction about compensation levels. The authors argue that, rather than rejecting the crop and its potential benefits, NGOs might better focus on assisting smallholders to negotiate better deals with plantation companies. In Chapter 9, Piers Gillespie provides an in-depth analysis of the political processes and institutional arrangements affecting smallholder participation in large-scale plantation development in West Kalimantan. He examines the strategic relationships shaping how

particular groups benefit from oil palm, arguing that participatory processes at the smallholder-plantation interface that fail to take into account the relevant power dynamics at play will inevitably lead to future confrontation. In Chapter 10, Greg Acciaioli and Oetami Dewi compare smallholder reactions to oil palm in two locales of plantation development, one in West Kalimantan and one in Central Kalimantan. They explore the impact of oil palm plantations, considering the modes of resistance oil palm has engendered among settlers and indigenous peoples in these two sites. The chapter examines the relative effectiveness of everyday resistance and the forms of modern and indigenous mobilisation utilized by farmers seeking inclusion in the oil palm economy and compensation for lost land.

While all the chapters are concerned with oil palm's impacts on rural livelihoods, the next two chapters focus specifically on plantation labour rather than settlers or landholders. In Chapter 11, Tania Li examines the deliberate creation of conditions of labour abundance (hence vulnerability) in what she terms "Indonesia's oil palm labour regime" through the dual strategy of enclosing land to dispossess local people while also importing labour from other regions. In Chapter 12, Sunny Sanderson puts a human face to the large number of Indonesian workers in Malaysia; the chapter is based on interviews with plantation workers on various schemes in western Sarawak. She places the decision to migrate for work in the context of household livelihood strategies, and examines the experiences of individuals caught up in this regional flow of labour.

Fifthly, in Chapter 13, Oliver Pye examines the oil palm complex at the transnational level by focusing on the Roundtable on Sustainable Palm Oil (RSPO). He considers the RSPO as a voluntary regulatory arrangement rooted in a market framework defined by brand vulnerability and consumer choice. Considering the strengths, limitations, ambiguities, and contradictions embodied in the RSPO, he questions the capability of this collaborative approach to address the issues raised by oil palm development.

In the final chapter, we pull together the key findings of the volume, setting out a series of arguments regarding the agrarian dynamics shaping uneven economic development, social conflict, and environmental changes that characterise the oil palm complex at multiple levels.

NOTES

1. *Oxford Dictionaries*, http://www.oxforddictionaries.com/definition/english/complex.
2. Of course, there is a great disparity between the population density in Java (over 1,100 persons per square kilometre) and other islands such as Sumatra (just under 100 persons per square kilometre), with significant implications for the movement of labour within the oil palm complex, as discussed below.
3. UMNO held almost half the seats in the Malaysian parliament in its own right until the 2008 election, when its share was reduced dramatically to 36 per cent. This was reversed in 2013 to 49 per cent.
4. Malaysia ranks 3rd (after Russia and Hong Kong) and Indonesia 10th (rising from 18th in 2007) on the *Economist*'s 2014 index of crony capitalism. *See* "Planet plutocrat: The countries where politically connected businessmen are most likely to prosper," *Economist*, 15 Mar. 2014, http://www.economist.com/news/international/21599041-countries-where-politically-connected-businessmen-are-most-likely-prosper-planet.
5. Varkkey (2012, 2013) concludes that the shared business culture between the two countries and the patronage of the Malaysian state explain why many of these Malaysian (and Singaporean) investors have been complicit in proscribed practices in Indonesia such as the use of fire in land clearing, which harms the public in their own countries through transboundary air pollution or haze.

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CHAPTER 2

Characterising Oil Palm Production in Indonesia and Malaysia

Rob Cramb and John F. McCarthy

In this chapter, we analyse the particular agro-economic features of oil palm as a commodity that have influenced its role in the rural economies of Indonesia and Malaysia.[1] We then examine the ways in which "land", "labour", and "capital" have been mobilised within the oil palm complex and their incorporation in distinctly different modes of production, with different outcomes for rural livelihoods. Despite historical differences in policy emphasis and intent between the two countries, we find a convergence in the trajectories observed that give clues to the underlying processes at work.

AGRO-ECONOMIC FEATURES OF OIL PALM PRODUCTION

Understanding the commodity-specific characteristics of oil palm is a starting point in understanding the nature and evolution of the oil palm complex. The oil palm (*Elaeis guineensis*), indigenous to West Africa, grows best in continuously wet, equatorial conditions within 10° of the equator and below an altitude of 600 m (Corley and Tinker 2003, Shiel et al. 2009, Rival and Levang 2014; Figure 2.1). Hence, within the Asia-Pacific region, it is grown primarily in a zone from southern Thailand, the Malay peninsula, and Sumatra in the

Figure 2.1. Oil palm with fruit bunches (Photo: nui7711/Shutterstock)

west, through the southern Philippines (Palawan and Mindanao), Borneo, and Sulawesi, to New Guinea and the Solomon Islands in the east (though attempts are being made to extend these limits into Mainland Southeast Asia) (Cramb and Curry 2012). This zone, of course, incorporates the world's most extensive tropical rainforest outside Amazonia and two significant biodiversity hotspots—Sundaland and Wallacea.[2]

With the surge in demand for vegetable oil, driven primarily by population and economic growth in the large economies of South and East Asia, as well as the more recent growth in demand for biofuels, world palm oil production has increased from 5 million tons in 1980 to 55 million tons in 2013, an annual growth rate of 7 per cent.[3] It is now the single most important vegetable oil consumed globally, surpassing soybean oil in 2003; in addition, around 13 per cent of palm oil output is now used in the production of biofuel (Mielke 2012, Dauvergne and Neville 2010, Rival and Levang 2014). Analysis of demand factors suggests that consumption of palm oil is likely to continue to grow at up to 2 per cent for the next 35 years, with China, India, and possibly Africa as main markets.[4]

The oil palm was introduced from West Africa to the Netherlands East Indies in 1848 and to British Malaya in 1875, initially as an ornamental plant. The first commercial planting in the Malaysia-Indonesia region was undertaken in 1911 near Medan on the east coast of Sumatra by the Belgian agronomist Adrien Hallet, from whom the French planter Henri Fauconnier purchased seedlings and in 1917 established oil palm in his estate on the west coast of the Malay peninsula near Kuala Lumpur (Tan 2008: 143)—reflecting the interlinked character of the region even at this pioneering stage. There was steady expansion of oil palm in these pioneering regions in succeeding decades but it was not until the 1960s that large-scale planting began to accelerate, particularly in Malaysia, which became the world's largest producer of palm oil in 1966 with 26 per cent of global output, overtaking Nigeria (Andaya and Andaya 1982: 217, 283; Tan 2008: 147). The 1960s expansion in Malaysia was undertaken both by private plantation companies that were diversifying out of rubber (including large British-owned companies such as Guthrie and Sime Darby and smaller Malaysian Chinese companies), and through government-sponsored land settlement schemes, notably those implemented by the Federal Land Development Authority (FELDA), primarily on virgin land (Pletcher 1991, Fold 2000, Sutton 2001). Since the 1960s, extensive industry- and government-sponsored research on breeding, agronomy, and processing has increased the productivity of the crop, as well as expanded the range of profitable end-uses.[5] For example, Corley and Lee (1992) showed that breeding, especially the introduction of hybrid seed, contributed to half of the quadrupling in yield that occurred between 1950 and 1990 in Malaysia, with improved agronomic practices, especially fertilising, accounting for the other half.[6]

While Malaysia was the dominant player up to the mid-1990s, Indonesia has accelerated its expansion from that point, overtaking Malaysia in terms of planted area in 1997 and surging to over 10 million ha by 2014, compared with Malaysia's total of just over 5 million ha (Figure 2.2). Between them they account for 84 per cent of the world's palm oil production. Oil palm constitutes the major crop in many regions within these two countries, dominating agricultural land use in both the Malay peninsula and the Borneo states (Sabah and Sarawak) in Malaysia, and occupying extensive areas in Sumatra and

Kalimantan and to a lesser extent in Sulawesi and Papua in Indonesia (PWCI 2010). Each country exports about USD 18 billion of palm oil and palm oil products (in the case of Malaysia, including almost USD 3 billion in oleochemicals).[7] In 2012, these exports accounted for 11 per cent of Indonesia's total exports (ranking third after coal and petroleum) and 6 per cent of Malaysia's more diversified export portfolio.

There are several features of oil palm that have a bearing on how well suited the crop is to different modes of production, from independent smallholders to private estates. First, as with any tree crop, there are initial land development costs and a long production cycle. While smallholders use traditional swidden techniques to clear secondary forest for planting, plantation companies typically invest in mechanised land clearing, with or without the use of fire, with costs ranging from USD 150 to 300 per ha.[8] With regard to the production cycle, Figure 2.3 shows the annual yield profile for two scenarios in Malaysia—a low-yield scenario typical of many smallholders and government-managed schemes, and a high-yield scenario achieved by many commercial estates—the difference attributable to a range of management factors, of which the level of fertilisation is the most prominent. In both cases, though some fruit can be harvested in the third year after planting, yields do not peak until about the ninth year and begin to decline after about 15 years, such that it is economical to re-plant after 25–30 years. This means that to achieve large yields, a planter must be able to access capital, if not for land clearing then at least to pay for planting material and fertiliser, and wait several years to receive the full returns on the initial investment. Plantation companies have many sources of finance, including internal funds, share capital, and bank loans, supporting a capital-intensive development phase that may entail an expenditure of USD 4,000–5,000 per ha (Cramb and Ferraro 2012). For smallholders, though their capital requirements are considerably lower, the need for capital, particularly for high-quality inputs, is often a binding constraint, locking them in to a low-yield profile such as shown in Figure 2.2. However, these yields have been raised to commercial levels with appropriate levels of support in terms of both initial inputs and infrastructure (Cramb and Sujang 2013).

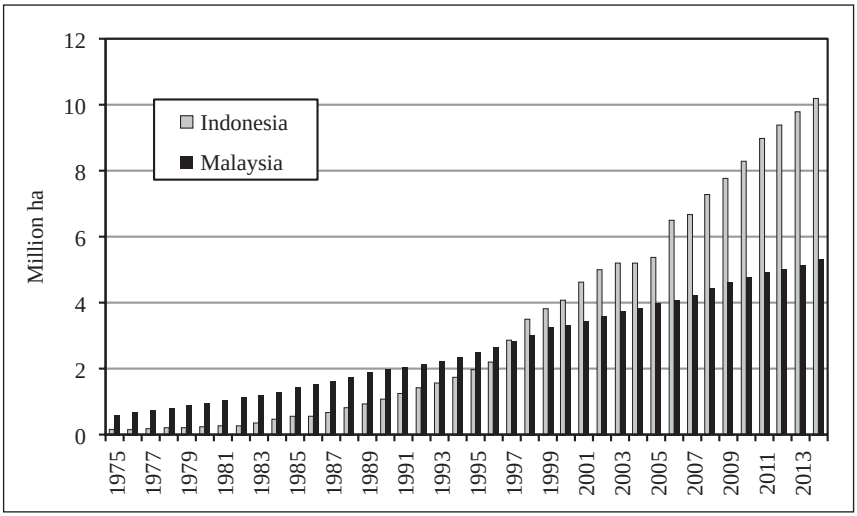

Figure 2.2. Area planted with oil palm in Malaysia and Indonesia, 1975–2014. (Sources: Malaysian Palm Oil Board; Directorate-General for Estate Crops, Indonesian Ministry of Agriculture; USDA Foreign Agricultural Service.)

In Indonesia, while plantations and well-managed nucleus estates produce around the high-yield scenario in Figure 2.3, smallholders tend to obtain yields at or below the low-yield scenario. A recent survey of over 1,000 Indonesian smallholders found an average yield of 13 tons of fresh fruit bunches (FFB) per ha, with farmers in nucleus estate and smallholder (NES) schemes achieving 10–15 per cent higher yields than independent smallholders (Molenaar et al. 2013). However, there is wide variation in yields, with about half of the independent smallholders in the survey planting non-hybrid (low-yielding) seedlings. Poorer farmers are also unable to access fertilisers and other inputs, further depressing yields. Moreover, many independent smallholders have trouble getting fruit to mills in time, especially in the wet season or in remote areas where roads are poor (Molenaar et al. 2013). Thus, as discussed in Chapter 4, there are significant "thresholds of inclusion and exclusion" for smallholders (Fortin 2005) that can accentuate economic differentiation within rural communities and limit oil palm's capacity to reduce rural poverty, especially in the absence of supportive government policies.

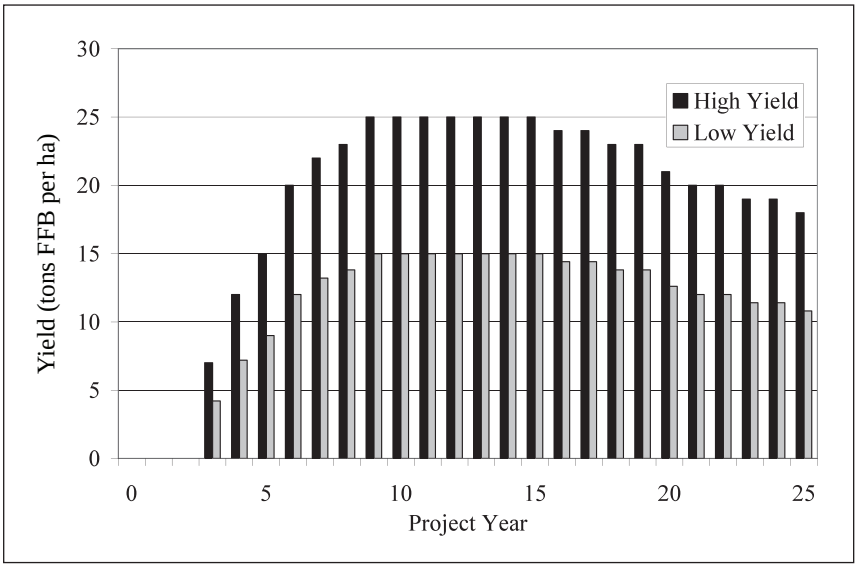

Figure 2.3. Low and high yield profiles for oil palm (Source: Cramb and Ferraro 2012)

However, there are no important economies of scale in production that would suggest that oil palm is inherently unsuited to smallholders. A diversified rural household with other farm and non-farm activities can cope with the upfront costs of oil palm development. Where governments, plantation companies, traders, or farmer organisations are able to provide capital to smallholders in the form of credit or grants for seedlings and fertiliser, the extra returns easily justify the initial outlay (Chapter 7). Once the necessary skills are acquired (sometimes through family members who have worked on estates), household labour can just as easily undertake the tasks of planting, crop maintenance, and harvesting as an estate labour force, and without the need for costly supervision. Moreover, the labour requirement for an established smallholding (including maintenance and harvesting) is only about 75 person-days per ha, spread quite evenly throughout the year, so a 3–4 ha holding can be managed by the equivalent of one full-time worker, leaving time for the household to pursue other economic activities, both on- and off-farm (Chapter 7).[9] Thus assisted or otherwise favourably situated smallholders can in fact obtain comparable yields to private or state-run plantations at significantly less cost.

While unit labour requirements for oil palm are lower than for other tree crops such as rubber, the expansion in plantation area has been so rapid and extensive, and largely at the expense of forests rather than alternative tree crops, that there has been a significant increase in the overall demand for labour. Moreover, around 60 per cent of the annual labour requirement is for harvesting and collecting the fruit, which is a strenuous activity mostly undertaken by younger men; another 30 per cent is for maintenance of the plantation (mainly weeding), which is undertaken by both men and women (Cramb and Ferraro 2012, Li 2015). The arduous nature of the work means that farm households with other livelihood options are frequently unwilling to engage in oil palm harvesting, especially under estate conditions. Hence, the supply of Malaysian workers for oil palm plantations has been limited and the plantation sector in both countries has been heavily reliant on migrant Indonesian labour (Abdullah 2011). For several decades, this supply of migrant labour has kept labour costs down and boosted the profitability of oil palm estates. However, the ongoing expansion in both countries and improvements in minimum wages and other conditions have tightened the labour supply and pushed up wages (Raghu 2014). Anecdotal evidence from Malaysia suggests that Indonesian workers have become more selective about where they work (for example, avoiding plantations on steep land that reduce labour productivity) and more demanding in terms of pay and conditions. This has prompted policies to recruit labour from other countries, such as Bangladesh, as well as the adoption by plantations of labour-saving innovations such as tractor-mounted fertiliser spreaders, herbicide sprayers, and slashers, and tractor-trailer systems for transporting fruit bunches to the collection point (Teo 2000, Cramb 2011).

The major economies of scale with respect to oil palm emerge in processing.[10] The harvested FFB need to be transported promptly (within 48 hours) to a local mill for crushing to produce crude palm oil and kernels (the latter are usually transported to another facility to produce palm kernel oil) (Figure 2.4). While small-scale processing can be viable (Chapter 5), a standard commercial mill in Malaysia or Indonesia capable of handling 60 tons of fruit per hour can reasonably process 300,000 tons of fruit per year at full capacity. This would require 15,000 ha of oil palm producing 20 tons of FFB per ha.[11] A mill can still run profitably at less than full capacity, and many do,

Figure 2.4. Transporting fresh fruit bunches to a palm oil mill in North Sumatra (Photo: Zahari Zen)

but to undertake the large investment that a commercial mill entails requires assurance that there will be a large productive area (at least 5–10,000 ha) supplying the mill. The simplest way to provide this assurance is to link a mill to a private estate of the required scale. In Malaysia, a company is required to have planted 5,000 ha of oil palm in order to obtain a mill permit from the Malaysian Palm Oil Board (MPOB). Similarly, regulations in Indonesia require a mill to have a linked set of smallholders or an estate. From 1995, small independent mills have been allowed in Indonesia, but only with processing capacities of less than five tons of FFB per hour (Molenaar et al. 2013, Susanti and Budidarsono 2014).

It is true that the economies of scale associated with processing provide an incentive for plantations to maximise their direct control over production (Figure 2.5). In both Indonesia and Malaysia, many investors have argued that estate models that give "unreliable" smallholders responsibility for production entail significant risks. By avoiding dependence on smallholders and directly controlling the largest area of production possible, plantations argue that they can boost profits

Figure 2.5. A palm oil mill in North Sumatra (Photo: Zahari Zen)

by maximising and stabilising the daily input of high-quality fruit to their mills. In large part, this logic underpins the shift away from the NES model of the New Order period (McCarthy et al. 2012a). The same motivation has been behind the push to replace smallholdings with shareholdings in both government-managed and joint-venture schemes in Malaysia (Chapter 6).

However, there is no inherent reason why the supply area should not be some combination of estates and smallholders, or even a purely smallholder landscape, provided that the necessary transport infrastructure is in place (Shiel et al. 1999, Rival and Levang 2014). In essence, this is a coordination problem that could be solved internally by a large private company, a public agency or a private (or government-brokered) contract between a processor and smallholders, whether acting individually or as a marketing cooperative. As Byerlee (2014) observes, companies face a trade-off between two sets of "transaction costs", which may be both monetary and non-monetary. On the one hand, there are the costs of accessing land (which may include payments to "intermediaries" and disruptions caused by drawn-out land disputes and conflicts) and of hiring and managing a plantation labour

force (which may comprise landholders, former landholders, recent settlers, shareholders, local inhabitants, or a floating population of migrants, each with their own incentives for shirking, foot-dragging, and other strategic behaviour). On the other hand, there are costs of negotiating and enforcing contracts with smallholders to ensure that they follow recommended production methods, adhere to supply schedules, and repay their debts. The balance between these two sets of costs can vary greatly from case to case and is not always well judged by plantation decision makers, especially in new (to them) environments (Cramb 2013; *see* Chapter 6).

Regardless of these considerations, the combination of a highly suitable environment, steadily escalating demand, the now widespread establishment of palm oil mills, and an abundant supply of low-wage, migrant (mainly Indonesian) labour has created a strong economic incentive for oil palm development in Malaysia and Indonesia by both estates and smallholders. For example, at prices prevailing in the past decade, a private estate in Sarawak, Malaysia, leasing state land, hiring mostly Indonesian workers, and using its own funds could generate a net present value of over USD 20,000 per ha, or over USD 100 million for a 5,000 ha estate.[12] This represents a private rate of return on investment of 26 per cent, compared with a nominal cost of borrowed capital of around 6–8 per cent (Cramb and Ferraro 2012). Butler et al. (2009) show that converting a 10,000 ha concession of old growth forest to an oil palm plantation in Sumatra yields a net present value of up to USD 10,000 per ha, which is ten times the value of preserving the forest for carbon credits in a voluntary carbon market (that is, under a scheme to reduce carbon emissions from deforestation and forest degradation (REDD)).[13] Similarly, Zen et al. (Chapter 3) estimate internal rates of return for purely commercial Indonesian estates of 18 per cent.[14]

A number of studies from Indonesia have shown that oil palm is particularly attractive to smallholders. If grown under favourable conditions, it offers returns to land and labour that compare favourably with other land-use activities, including rubber (Budidarsono et al. 2013, Feintenie et al. 2010, Li 2015, Shiel et al. 1999, Papenfus 2002: 13, Rist et al. 2010, Rival and Levang 2014). The Jambi survey discussed in Chapter 4 found that progressive "plasma" smallholders around nucleus estates with one high-quality plot were earning nearly USD 5,000 per year, while wealthier commercial farmers who had

gradually expanded to hold on average more than 4 ha earned over USD 40,000 per year.[15] Likewise, smallholders in Malaysia, using their own land and labour and applying modest quantities of fertiliser, can earn USD 25–40 per worker-day, well above the rural wage rate and the daily return to competing agricultural activities (Cramb and Sujang 2013). A 3 ha holding can provide a monthly net income of USD 300–800, significantly above the Malaysian poverty line of USD 217, even oil palm smallholders typically have time to grow their own rice and pursue other farm and off-farm sources of income.

Given these incentives, it is not surprising that smallholders and plantation companies alike have sought to capitalise on the oil palm boom, by whatever means. Hence macro-statistics suggest that oil palm generates economic growth and developmental outcomes at the aggregate level. Zen et al. (2015) show that Indonesian provinces that have more oil palm cultivation have higher Gross Regional Domestic Product (GRDP) and lower incidence of rural poverty. At the same time, micro-level field studies reported in this volume and elsewhere suggest that these statistics mask significant problems of distributional justice and marginalisation. Half of Indonesia's massive population

Figure 2.6. WALHI activists and Dayak leaders in a contested forest area retained by a local community in Central Kalimantan (Photo: Arie Rompas)

still live on farms, and for these tens of millions of people, the revolutionary promise of land reform remains largely unfulfilled. The Basic Agrarian Law, enacted in the wake of the Indonesian Revolution, was supposed to provide access to land and equitable returns for peasant farmers. But 50 years later, the law's objective of social justice has not been achieved (Lucas and Warren 2013) (Figure 2.6).

The key questions that arise, then, concern how in practice participation in the boom has been organised (i.e., how people and resources have been mobilised in different modes of production), how the opportunities and spoils generated by the boom have been distributed, and what complex of factors have shaped the different outcomes that can be observed.

MOBILISING LAND, LABOUR, AND CAPITAL

From the perspective of market liberalism, investment in oil palm production merely involves finding efficient ways to combine the factors of production—"land", "labour", and "capital"—within a profit-making entity to supply a commodity in global demand. Polanyi (1944) famously referred to these factors of production as "fictitious commodities" to highlight that the ideology and practice of market liberalism treated them as though they had been produced for sale like other traded commodities, whereas "what we call land is an element of nature inextricably interwoven with man's institutions….The economic function is but one of many vital functions of land" (1944: 178), and "to separate labour from other activities of life and to subject it to the laws of the market was to annihilate all organic forms of existence and to replace them by a different type of organisation, an atomistic and individualistic one" (1944: 163). These observations still resonate in the contemporary oil palm complex, as seen in this and subsequent chapters.

Notwithstanding the rhetoric of private sector-led development, agribusiness firms in Malaysia and Indonesia have looked to the state to "free up" land and create or reinforce the conditions for an abundant supply of "free wage labour" to make investment in particular modes of oil palm production both possible and profitable. These interventions have in turn been tied up with modern ways of raising financial capital to invest in oil palm expansion, such as government ownership of oil palm corporations and public floats of investment

vehicles based on putative "land banks". Here we examine the complex and contentious processes involved in the mobilisation of these three factors of production, before considering the logic of the alternative modes of production in which they are combined and the tensions that arise within and between these different modes.

Land

As Ribot and Peluso (2003) have theorised, access to resources involves much more than possessing formal property rights. Access is the ability to benefit from the use of resources, whereas property is just one of the mechanisms by which access can be acquired. Hall et al. (2011) identify four interrelated "powers" that shape the processes whereby some actors gain access to land while others are excluded: regulation, the market, force, and legitimation. All these powers have been deployed, singly and in combination, in "opening up" land for large-scale oil palm development in the region. In particular, the regulatory power of the state has been used to redefine land rights, reclassify land types, and facilitate the consolidation, privatisation, and commodification of all types of land.

Much of the controversy surrounding oil palm relates to disputed land tenure and land allocation (Byerlee 2013). Despite different colonial histories and legal traditions, as noted in Chapter 1, both Malaysia and Indonesia have plural legal systems such that three general categories of land can be distinguished—private land, state land, and customary land (Cramb 2007; Susanti and Budidarsono 2014). However, these categories have particular inflections in each country and the status of large areas remains a contested "grey zone" in Sikor and Lund's (2009) terminology. "Private land" (freehold title in Malaysia or *hak milik* in Indonesia) is subject to exclusive and indefinite ownership and can be mortgaged or transferred without restriction. "State land" includes land defined and mapped by state agencies as public lands, often irrespective of customary claims over the area. This encompasses forest reserves and lands that the state asserts its legal power to alienate to individuals or corporations, usually by way of a long-term (typically 30 to 60 years) lease or concession for commercial purposes (e.g., an agricultural lease in Malaysia or *hak guna usaha* in Indonesia). The state used such areas for land settlement and transmigration schemes in the late colonial era and the early decades of

independence, supposedly to transform landless or subsistence-oriented farmers into independent, commercial farmers. Subsequently, the crucial role of land and timber in patronage politics (Dauvergne 1997; Leigh 2001; Varkkey 2012, 2013) has meant that state lands have been carved up and allocated to clients in the business sector for logging and oil palm development—an internal or domestic form of the global "land grab" (Chapter 6).

Historically, traditional territorial groups developed institutions to govern customary lands in much of Malaysia and Indonesia. Such institutional arrangements were consolidated by processes of indirect colonial rule (Cramb 2007, McCarthy 2006). For instance, the Iban in Sarawak and the Melayu in Jambi regulated access to and use of specific plots of land and trees, providing secure, recognized household land rights (Cramb 2007; Cramb and Wills 1990; McCarthy 2007, 2010). At the same time, the group retained control (or a right of access) over areas of common land such as village forest reserves, and acted to defend the integrity of the territory as a whole (Cramb et al. 2009). In particular, community consensus has been an important value when it comes to decisions about involvement in large-scale oil palm schemes. Different land development agencies (private and public) have varied in the extent to which they recognise the importance of building such community consensus before attempting to move ahead with their projects (Cramb and Sujang 2011). In many cases, however, the prior emergence of intra-group inequalities has resulted in internal conflicts as more powerful group members manipulate negotiations with outsiders in their favour (McCarthy 2010, Cramb 2013). Yet, in other cases, the notion of a functioning territorial group has long since broken down (if it ever existed) and land transactions are conducted on a purely individual basis, without regard for cumulative social consequences (Li 2002, 2014; Hall et al. 2011).

In both countries, incentives to draw customary landholders into large-scale land development projects have proved contentious (Cramb 2011a, 2013; Nelson et al. 2012; Rival and Levang 2014). Majid-Cooke (2012) shows how in Sabah, a recent provision in the land law for issuing communal title, based loosely on customary notions of the territorial group, has been used to facilitate state control over customary land for the development of large oil palm estates, with uncertain outcomes for the landholders. Joint-venture schemes on consolidated customary land in Sarawak have resulted in significant court challenges

that are still unresolved (Cramb 2013; *see* Chapter 6). In principle, Indonesia's legal framework also recognises customary rights. However, the 1960 Basic Agrarian Law provides that the "territorial rights" (*hak ulayat*) of communities will only be acknowledged if they accord with national and state interests, and the law fails to provide customary communities a clear right to reject large projects (Lucas and Warren 2013). Despite a recent Constitutional Court ruling that points towards the recognition of customary claims over forests, at the time of writing, communities still await the development of a clear, effective means of providing recognition of customary rights in the vast areas that the state had earlier mapped as "forest land".[16]

During the Suharto period, the state directly oversaw the process of "freeing up" land for plantations through a "reverse land reform", taking away lands from villagers and allocating them to large-scale investors with only minimal compensation to customary owners (Afrizal 2013, Campbell 1999). After 1998, the system shifted somewhat. From that time, companies seeking formal development licenses from a state authority have been required to conduct consultations with affected communities and negotiate release of land subject to customary claims before moving ahead. The promulgation of notions of Free Prior and Informed Consent (FPIC) has led to significant shifts among some industry leaders (Forest Peoples Programme and Sawit Watch 2012). Nonetheless, allegations of contentious processes of "freeing up land" continue to circulate as companies embark on an ad hoc process of accommodating, compensating, co-opting, or even suppressing existing landowner claims though various local negotiation practices, often resulting in the emergence of localised protests (Afrizal 2013, McCarthy et al. 2012b, Morgan 2013).

Apart from the issue of land tenure is the apparent absence of effective land-use controls in either country, despite the nominal existence of planning mechanisms. As mentioned above, rural "public lands" are typically zoned as either agricultural and forest uses, and within the latter, between forests that can be converted to agricultural or other uses and the permanent forest estate, intended either for indefinite timber production or for protection as national parks or wildlife reserves. Much of the land zoned for conversion to agriculture has been allocated for oil palm development. In addition, state planners in both countries have continued to excise large areas from the permanent forest estate to expand the available plantation area. Indeed,

central government planners released 5.7 million ha of Indonesia's forestry estate for this purpose between 2007 and 2011, not including the extensive areas also released by district governments (Resosudarmo et al. 2014). Such areas are often old growth forests or former concession areas that still have high conservation value. Thus, Venter et al. (2009) found that 40 of Kalimantan's 46 threatened mammal species are found within the area of planned oil palm development and that it threatens 750,000 ha of orangutan habitat.

As mentioned above, steep lands deemed by soil scientists to be "unsuitable for any form of agriculture" have been clear-felled, hastily terraced, and planted with oil palm, creating severe problems of erosion, runoff, and stream pollution (Tanaka et al. 2009). Even more striking is the apparently unlimited access to peatland forests, especially in Sarawak and Riau, regardless of the risk of irreversible environmental damage rendering the land unsuitable for any use—agriculture, forestry, or conservation—in the long-term (Carlson et al. 2012, Wicke et al. 2008). Environmental guidelines exist, including requirements for environmental impact statements as well as obligations to set aside High Conversation Value areas in accordance with the RSPO's voluntary certification standards. Despite this, the effort given to implementing these standards and norms in practice often appears minimal or ineffectual. Poor governance, overlapping authority, inconsistent legal rules, and corruption can make even the best-intended policies ineffective (McCarthy and Zen 2010). Hence, rates of deforestation remain high, with one report estimating that Indonesia lost 15.8 million ha of forests between 2000 and 2012, with oil palm development the major driver, making Indonesia the world's largest deforester over that period (Margono et al 2014). Although the government rejected large numbers of new concession licenses following a moratorium declared in 2011 on new clearing in primary natural forests and peatland, the deforestation rate was reported to have hit its highest level in 2012 (Butler 2014, Sari and Samhadi 2014).[17]

Labour

There are around four million workers engaged in oil palm production in the Malaysia-Indonesia region.[18] The "labour regimes" vary from landholders and settlers working on their own smallholdings (whether

independently or as part of a managed scheme) through to local and migrant workers fully employed on estates, though estate labour can also be provided by surrounding smallholders.

Smallholders can typically divide their household labour between oil palm and other livelihood activities. These other pursuits include food production for household subsistence, as well as production of other cash crops and non-farm employment such as small-scale business (Chapter 7). The relative importance of these other activities varies across the region and has changed over time. In more remote parts of Indonesia, there are fewer alternative options and the farm household may be highly dependent on the income from oil palm, especially in transmigration areas. Hence, a form of agrarian differentiation occurs based on the size, productivity, and accessibility of the oil palm holding (Chapter 4). In Malaysia, on the other hand, not only are smallholders less dependent on oil palm, there has also been a tendency for "managed smallholders" (discussed below) to evolve into "shareholders", who now contribute little or no labour to their oil palm holdings but receive regular dividends or proceeds (Chapter 6). In effect, they have turned their land into a financial asset as part of a diversified income portfolio. This, in turn, has added to the demand for migrant workers from Indonesia to provide the labour for these schemes as well as the private estates.

Probably two thirds of the oil palm workers in the region—over 2.5 million—are internal or international migrants, mostly Indonesian (but also include migrants to Malaysia from Bangladesh, Myanmar, Thailand, and the Philippines).[19] It is possible to discern a movement of labour along both a population gradient and a poverty gradient. In the case of settlers and migrant workers from densely populated Java (who constitute the overwhelming majority), these two gradients coincide, but elsewhere, this is not the case. Many Indonesian migrant workers originate in the poorest but least densely populated districts of eastern Indonesia (Li 2011, Pye et al. 2012). The Indonesian workforce, known both inside Indonesia and abroad as *Tenaga Kerja Indonesia* (TKI), has been crucial to the viability of the estate sector in Malaysia and Indonesia, as well as to the "managed smallholder" schemes of FELDA, FELCRA, and other agencies in Malaysia. Indonesian workers in Malaysia obtain two-thirds of the standard Malaysian wage, and only a third if they are not registered. They may well work

seven days a week, living in barracks on the estate, forming a highly flexible, unprotected workforce (International Labor Rights Forum and Sawit Watch 2013).

Indonesian workers typically come to Malaysia on two-year contracts, extendable for up to five years. As Pye et al. (2012) explain, there are both legal and illegal pathways for Indonesian workers in Malaysia, who come from marginal situations at home and lead a precarious existence while engaged in plantation work abroad; this precariousness being the result of a political strategy to maintain a cheap and compliant workforce. Nevertheless, their case histories show a range of livelihood outcomes, with some migrant workers living and working in relatively improved and stable conditions, while others are seriously exploited and marginalised (Amnesty International 2010; *see* Chapter 12). Labour unions and NGOs have documented the poor working conditions of plantation workers, and have made allegations of widespread violations of basic international labour norms, including labour trafficking, child labour, unprotected work with hazardous chemicals, and long-term abuse of temporary contracts (International Labor Rights Forum and Sawit Watch 2013). The experience of precarious conditions can apply to migrant workers within Indonesia as much as to those who make the journey to Malaysia (Chapter 11). Indeed, as the wages and conditions on Indonesian plantations are usually worse than in Malaysia, migrant labourers from impoverished corners of Indonesia continue to make the costly and risky journey to Malaysia (Figure 2.7).

As indicated above, there is an intermediate labour regime between smallholders and full-time estate workers, which corresponds to Bernstein's (2010) category of "semi-proletarian"—that is, plantation workers who are also marginal farmers and therefore not yet fully dependent on wage labour.[20] Smallholders with adequate land (whether planted with oil palm or not) and access to non-farm work opportunities generally do not contribute to the plantation labour force, which is the case in much of Malaysia (Chapter 7). However, in parts of Indonesia, the extent of land occupied by oil palm estates and the loss of alternative sources of livelihood has compelled villagers on the margins of the estates to take up employment as casual workers (known as *buruh harian lepas*), whether they are local villagers or transmigrants. Tania Li argues in Chapter 11, that state policies now deliberately create conditions of labour abundance through "the dual

Figure 2.7. Barracks for Indonesian plantation workers in a Rimbunan Hijau estate in Lundu, Sarawak (Photo: Sunny Sanderson)

strategy of enclosing land to dispossess the local population while *also* importing labour from distant locales." In recent versions of the transmigration program, settlers have been allocated insufficient land for their own reproduction, thereby creating an additional supply of casual labour for the estates (Potter 2012).

While for some, casual wages and other opportunities offered by the estates provide an important means of improving livelihoods (Potter 2009), or at least a safety net to ameliorate food insecurity (Julia and White 2012), the relatively low demand for labour on established oil palm plantations, often cited as only one person for 3 ha (Pardamean 2011), means that in many oil palm districts only a limited number of local households can find even casual employment on the estates. Where households have lost access to land, they become dependent on low wages and buying food in the cash economy, reducing some to thieving oil palm fruits to survive. In the West Kalimantan case described by Julia and White (2012), work opportunities remain scarce and food security continues to be a problem, especially given increasing needs for cash income, reduced opportunities

for traditional mixed farming, the depletion of forests, and the rapid expansion of oil palm estates. Given these limited choices, villagers are attracted by whatever cash income is offered by the oil palm plantations. However, the advent of employment opportunities on oil palm estates is associated with a new gendered division of labour and a feminisation of agricultural work. Women have lost the status and income provided by mixed agricultural livelihoods of the past, becoming dependent on poorly paid and insecure oil palm work, which now provides the key source of cash income. Li (2015) confirms this picture, adding that "local" Malay and Dayak women from landless or near-landless households work as casual plantation labourers on low wages to help maintain their families, while their husbands migrate elsewhere for work. Meanwhile, the state-owned and private plantations now prefer to employ younger men from elsewhere in Indonesia as harvesters rather than provide secure employment to married couples as in the past, whether locals or transmigrants (Li 2015).

Thus, across the region, we can see a spectrum of situations with respect to the employment of labour in oil palm production. In Malaysia, structural change associated with economic development has induced a trend towards the exit of local labour from both managed smallholder and estate modes of production, and a compensating influx of Indonesian labour. In Indonesia, both smallholder and migrant labourers are important to the viability of the industry, with the "new transmigration" approach seemingly designed to provide "labour colonies" for still rapidly expanding plantations (Potter 2012). As argued in Chapter 11, this replicates the explicit strategy of agribusiness interests developing plantations in Sumatra during the colonial period.

Capital

The financial capital for oil palm development came initially from three general sources—the established, foreign-owned plantation companies (using mainly internal and borrowed funds, though some companies such as Guthrie had been listed on the London Stock Exchange since the 1960s); government loans and grants to public agencies charged with implementing land development and settlement schemes (such as FELDA); and loans and grants from international agencies, notably the World Bank (WB), the Asian Development Bank (ADB)

and the Commonwealth Development Corporation (CDC). Over time the balance has shifted towards private capital, especially Malaysian and Singaporean capital. At the same time, investment banks, pension funds, hedge funds, and large international investment funds have also shifted financial assets into oil palm (Narayanasamy 2014). The rise of market liberalism in the 1980s signalled a shift away from large rural development projects, funded and managed by the public sector, towards greater private sector investment (McCarthy and Cramb, 2009). Nevertheless, somewhat ironically, some of the largest of these ostensibly private companies in Malaysia, such as Sime Darby and Tabung Haji Plantations, are in fact majority owned and controlled by government-owned holding and investment funds, and hence they are termed "government-linked" private companies.[21] Similarly, in Indonesia, state plantation companies manage an area of oil palm production more extensive than any one private group (Chapter 13).[22]

Allowing for this ambiguity in the notion of "private company", the shift to private sector investment from the 1980s has occurred in two ways. First, private plantation companies have driven much of the oil palm expansion in the region. The number of such companies has also increased as timber and timber-product companies like Rimbunan Hijau in Malaysia, now a global plantation giant, and Sinar Mas in Indonesia have diversified into oil palm plantations and other activities, channelling timber profits into plantation development. This expansion in private investment has included participation in various schemes with landholders, as described below, but this type of involvement, needed to gain access to public and/or customary land, has been dwarfed by investment in own-account plantations—by far the preferred and most profitable mode for the investors (Cramb and Ferraro 2012). These companies have access to loans from domestic and global lenders; in some cases the conglomerates to which they belong also include banks that provide finance for their plantation operations.[23]

Second, many of these private companies now access funds, not only internally or by borrowing, but also by raising share capital through the Malaysian, Singaporean and Indonesian stock exchanges. These exchanges list many plantation companies on the mainboard. In Malaysia, 38 plantation companies were listed in 2009, with a market capitalisation of MYR 71.7 billion (USD 23.1 billion) (Sime

Darby 2009). Even FELDA in 2012 floated its subsidiary, FELDA Global Ventures Sdn Bhd, on the Malaysian Stock Exchange, raising USD 3.1 billion in Asia's biggest ever Initial Public Offer (IPO) (Gough, 2012). This capital inflow will enable it to increase its investment in oil palm internationally. In this more globalised capital market, Malaysian and Singaporean investment in Indonesian plantation companies increased substantially following the Asian financial crisis, both because of the Indonesian companies' urgent need for capital and the increasing limitation on expansion through land conversion within Malaysia.

Thus, if plantation labour has become more mobile, extending to cross-border migration from Indonesia to Malaysia, the capital for investment in oil palm plantations has become even more so, but in this case, the flow is primarily in the other direction. Plantation companies (and now their shareholders) are interested primarily in maximising the marginal returns to capital and will seek out new opportunities to access extensive areas of cheap, unencumbered land with access to a stable (i.e., "tied"), low-wage labour force, regardless of political boundaries. The acquisition of these "land banks" is strategically highlighted in company prospectuses and stock exchange updates as indicators of the company's earning potential (even if the land is never utilised), thereby increasing the company's share price and borrowing capacity.

As development opportunities have been taken up in the prime plantation areas of Peninsular Malaysia and Sumatra, the comparative advantage of Malaysia's Borneo states and of Kalimantan, Sulawesi, and Papua in Indonesia has increased. Hence Malaysian and Singaporean investors have sought ways to channel their capital into progressively more marginal and risky environments within the Malaysia-Indonesia oil palm complex (and beyond, to West Africa and Central America). National and local governments have competed to attract this investment by providing access to land and labour on ever more attractive terms (Chapters 6 and 11). As Varkkey (2013) demonstrates, the political elite in Malaysia has worked closely with its counterparts in Indonesia to facilitate and protect this investment. Nevertheless, these expansionary plans are not always well-informed or successful, encountering unanticipated technical constraints or local opposition. In some cases, as in Malaysia, they are merely speculative in nature

or intended to shore up the share price. Consequently, allocated "land banks" remain "virtual" and unutilised for extended periods (McCarthy et al. 2012b).

CHARACTERISING THE MODES OF OIL PALM PRODUCTION

The management systems or modes of production that have been devised for oil palm vary from independent smallholders to large-scale private estates, with a variety of state-managed or brokered arrangements in between (Table 2.1). Estates dominate the planted area in both Malaysia (61 per cent) and Indonesia (56 per cent) (Barlow et al. 2003, Casson 2000, Cramb 2011, PWCI 2010, Sime Darby 2009). Most of these are privately owned, but (as noted above) some plantation companies in Malaysia and Indonesia are partially or wholly state-owned (or "government-linked"). Following the establishment of the estate sector and its infrastructure (roads and mills), there has been rapid growth of independent smallholders in both countries, especially in the last two decades (Barlow 1986, Barlow et al. 2003, Cramb and Sujang 2012, Majid-Cooke et al. 2006, Molenaar 2013, PWCI 2012, Sime Darby 2009). Experiments with intermediate options that involve landholders, settlers, state agencies, and private companies in different combinations have occurred throughout the region over the past 50 years (Barlow 1986; Barlow, et al. 2003; Cramb 1992, 2011a, 2011b; Cramb and Ferraro, 2012; Fold 2000; King 1986; McCarthy 2010; McCarthy and Cramb 2009; Molenaar 2013; Ngidang 2002; PWCI 2010; Sime Darby 2009; Sutton 1988, 1989, 2001; Zen et al. 2005).

Five general modes of production are considered here: (a) estates; (b) managed smallholder schemes; (c) NES schemes; (d) joint-venture schemes; and (e) independent and assisted smallholders (Table 2.1). This analysis provides a common classification and terminology for the chapters that follow and helps to explain the political and economic logic underlying the emergence and persistence of specific production modes. In particular, we see a convergence around the commercial estate mode (or "plantation complex") on the one hand and strong tendencies towards the independent smallholder mode on the other, with the outcomes very much dependent on state policies.

Table 2.1. Characterisation of modes of oil palm production

Mode of production	*Variants*	*Where found*
Estates	Private *and/or* state-owned	Malaysia
	National *and/or* foreign company	Indonesia
	State land (*with or without* customary land claims)	
Managed smallholder schemes	Resettlement schemes for landless/ land-poor *or* in situ schemes for existing landholders	Malaysia
	Landholders manage own lots *or* agency manages whole scheme on an estate basis	
	Large-scale *or* small-scale schemes (mini-estates)	
Nucleus estate and smallholder schemes	Private *or* state-owned plantation company as nucleus (providing mill and other infrastructure)	Indonesia
	"Plasma" smallholders comprising settlers *and/or* local (customary) landholders (70% of land)	
	Smallholder cooperatives dealing directly with plantation company (70% of land)	
Joint-venture schemes	Customary land is consolidated in a trust held by a government agency which forms joint-venture company with private investor (Sarawak model)	Malaysia Indonesia
	Customary landholders issued with communal title, conditional on development by a private or state-owned plantation company (Sabah model)	
	Partnership schemes whereby company develops and manages 20% of land for farmers and pays "rent" on basis of land area contributed (Indonesia model)	
Assisted smallholders	Smallholders given planting grants (subsidised inputs) and technical advice	Malaysia
	Smallholder groups linked to input supplies, credit, technical advice, fruit bulking facility, and processor	
Independent smallholders	Self-managed and self-funded (may receive some inputs on short-term credit but many unable to afford inputs)	Malaysia Indonesia
	Smallholders who have graduated from NES schemes and have become independent	

Estates

The origins of the estate mode of production lie in what Byerlee (2013) terms the "first era of globalisation". This era saw the emergence of plantation agriculture on both sides of the Strait of Malacca —the east coast of Sumatra and the west coast of Malaya—beginning with smaller proprietary plantations for tobacco (especially in Sumatra), coffee, and sugarcane, but expanding rapidly with the rubber boom in the first decades of the twentieth century. The emergence of these plantations was made possible by two planks of both British and Dutch colonial policy during this era. First was the allocation of land to private investors—mainly British in the Malay peninsula and mainly Dutch (but also British, American, and others) in Sumatra. Second was the institution of indentured labour—mainly from Java in Sumatra and mainly from southern India in Malaya, but with considerable numbers of Chinese indentured labourers in both regions.

With the boom in rubber, the British agency houses in Malaya and Singapore mobilised the capital and took on the management of the proprietary plantation companies, giving rise to the large plantation conglomerates such as Guthrie, Sime Darby, and Harrisons and Crosfield (Drabble 2000). In succeeding decades, they progressively acquired interests in more rubber plantations, some extending their sphere of control to Sumatra and Borneo, setting in train a process of expansion that has continued into the oil palm era. A similar process occurred in Sumatra from the 1880s, where well-endowed investment and trading firms such as Handelsvereeniging Amsterdam (HVA) and Nederlandsche Handel Maatschappij (NHM) bought out and consolidated smaller plantation companies, thereby gaining control over production as well as trade (Stoler 1985: 16).

Thus, the emergence of the rubber industry in colonial Malaya and Sumatra gave rise to a new institutional form—appropriately termed the "plantation complex" by Kaur (2013). European and American capital was accessed through public limited companies established by agency houses that oversaw centrally managed estates, run by European managers and worked by poorly paid indentured workers from India, China, and Java who were in effect tied to the plantation. As Kaur remarks with regard to Malaya, plantation production was organised on "military industrial lines" with about 1,000 workers per plantation living in "coolie lines" or barracks (Kaur 2013: 3).[24] Stoler (1985)

describes a similarly distinctive production environment on Sumatra's east coast.

The result of the development of this "plantation complex" was a 40-year expansion of rubber planting, such that rubber was the mainstay of the Malayan and Sumatran economies by the 1950s (Barlow 1978, Drabble 2000, Stoler 1985). However, as the Korean War boom came to an end, pre-war rubber plantations came up for replanting, and competition from synthetic rubber set in. The prospects for rubber looked less attractive and many European rubber estates began to be converted to oil palm. Thus, the plantation complex that had been created to exploit the profits of the rubber boom formed the basis of the emerging oil palm industry from the 1960s.

Chinese planters in Malaya, who had pioneered crops such as sugarcane and cassava in the nineteenth century, also took up rubber in the first half of the twentieth century, though on a smaller scale than their European counterparts (Tan 2008). Whereas European-owned plantations were public limited companies with many shareholders, Chinese estates were owned by individuals, families, partnerships, or private companies, hence had access to less capital. By the 1950s, most were under 400 ha, though some were as large as 5–10,000 ha and a few were also managed by agency houses. These estates also began slowly to move into oil palm.

Notwithstanding this local investment, by the early 1950s, over 80 per cent of estates in Malaya and Sumatra were owned by Europeans (Tan 2008: 81). With the forced expropriation of Dutch businesses in Indonesia in 1957–59 (Stoler 1985: 147–9, Lindblad 2002), the Dutch-owned estates were transferred to the Government Estates General or Pusat Perkebunan Negara (PPN), and continued as a complex of state-owned companies known as PT Perkebunan Nusantara (I-XIV). Stoler (1985: 148–9) notes how the nationalisation of the estates helped establish a new Indonesian managerial elite, as well as justifying the role of the military in the control of plantation labour: "In the late 1970s, the executive boards of the large government estate corporations included some of the most influential men in the region, among the wealthiest in Indonesia" (Stoler 1985: 149).

Nationalisation of the plantation sector in Malaysia came in the 1970s and 1980s as part of the New Economic Policy and was undertaken through aggressive acquisitions of company stocks, joint ventures, and other business arrangements (Martin 2006, Lindblad 2002).[25]

By 1985, foreign control of the plantation sector in Malaysia had been reduced to six per cent, falling in subsequent decades to one per cent (Tan 2008: 157). Nevertheless, the process of growth and diversification that had been underway when the companies were foreign owned continued under government ownership. The ultimate expression of this tendency was the merger in 2007 of Sime Darby, Guthrie, and Harrisons (which had been renamed Golden Hope) into a single, largely state-owned entity—Sime Darby. The merger was the largest in Malaysian corporate history and created the world's largest plantation company. Sime Darby Plantation Sdn Bhd is also the world's largest producer of certified sustainable palm oil with more than 60 per cent of its output RSPO-certified. It is one of the largest Malaysian investors in the Indonesian oil palm sector.

Notwithstanding the change in ownership, the plantation complex continues to be managed in much the same way as the early rubber estates, with hierarchical management and a tied plantation labour force, directed towards the maximum return on capital (Figure 2.8) While greater formal protections such as minimum wage now in place in Malaysia, plantation workers in that country continue to live in relative poverty (Kaur 2013) and migrant Indonesian workers in both countries face precarious conditions (Chapters 11 and 12; Pye et al. 2012). As argued below, the profitability of the plantation complex, made possible by ongoing policies of cheap land and labour, has led to a convergence around this mode of production, even on the part of government agencies initially set up to assist smallholders.

Managed Smallholder Schemes

Managed smallholder schemes (sometimes termed "organised" smallholders) have been in place since the 1960s in Malaysia but have not been adopted in Indonesia, presumably because of their high cost per hectare and per household. These schemes include resettlement schemes that involve the development of state land for government-sponsored settlers, whether landless or land-poor, and in situ schemes, where a government agency establishes oil palm in a consolidated block for existing landholders, each of whom contributes a portion of their land to the scheme.[26]

Malaysia's FELDA is the largest and most successful example of the former approach (Pletcher 1991, Sutton 2001, Rival and Levang

2014). FELDA was established in Malaya in 1956 and began to develop land for settlers from 1960, primarily by opening up forested land for rubber and oil palm, especially in less populated states on the peninsula such as Pahang, Johor, and Terengganu. Lots were allocated to individual settlers, mostly ethnic Malays who met the selection criteria, including being landless or near-landless. However, the working of these lots was tightly controlled by a well-resourced, hierarchical management structure; settlers could only receive titles once development costs had been met through periodic deductions from their accounts.

Most of FELDA'a settlement schemes were part of large integrated rural development projects such as the Jengka Project in Pahang (extending over 1,217 sq. km and incorporating 24 settlement schemes) that included timber, commercial plantations, and urban development. From 1967, FELDA established a Settlers Social Development Division to support and organise the growing number of settlers. The United Malays National Organisation (UMNO) was also active in establishing branches in each of the schemes, which provided a solid base of political support. As FELDA's production capacity expanded, it extended into downstream activities including the bulking, processing, and marketing of palm oil and rubber, becoming a large, vertically integrated, and diversified entity.

By 1990, FELDA had settled 119,300 families or 715,800 people. It managed 475 schemes, not all of which had settlers in place, with a crop area of 823,720 ha, of which 75 per cent was under oil palm (Sutton 2001). It was widely regarded as the most successful example of planned agricultural resettlement world-wide. State-based agencies such as the Sarawak and Sabah Land Development Boards attempted to follow the FELDA model but were less tightly organised and had considerably less success (Barlow 1986, Cramb 1992, Hewgill 1999, Majid-Cooke, 2012).

Halim Salleh (1991) outlined some of the internal contradictions of the FELDA schemes as they operated in the 1970s and 1980s, particularly between the agency's avowed intention to create a class of independent smallholders while at the same time tightly controlling the production system. This was particularly evident in FELDA's attempt in the 1980s to replace land titles with shareholdings, which met with strong resistance from settlers, for whom land ownership was a prime motivator (Sutton 2001). FELDA schemes have also

encountered second-generation problems, with high unemployment in remote areas or movement of family labour off the schemes to take up non-agricultural employment in more industrialised areas (Guinness 1992).

However, from the early 1990s, FELDA ceased recruiting settlers and shifted to developing and managing its schemes as commercial estates through FELDA Plantations Sdn Bhd, which was incorporated in 1992 (Sutton 2001). This transition was exemplified in its large estate complex in eastern Sabah, begun in the 1980s with overly ambitious plans for resettlement, but which since the 1990s has been almost entirely run as a series of commercial plantations with mostly Indonesian labour (Sutton 2001). The parent company, FELDA Holdings Bhd, became a public company in 2003 and is now the largest producer of palm oil in the world, accounting for about seven per cent of global output. Thus, not only in its mode of production, but also in the scale of its operations and the nature of its ownership structures, FELDA has converged with the large, nationalised plantation companies such as Sime Darby. This convergence is a distinctive feature of the evolving oil palm complex in Malaysia.

In addition to managed resettlement schemes, Malaysia has pioneered the in situ approach through agencies such as the Federal Land Consolidation and Rehabilitation Authority (FELCRA) and its state-based equivalents, notably the Sarawak Land Consolidation and Rehabilitation Authority (SALCRA) (Cramb 2011a, 2011b; Cramb and Ferraro 2012), though, again, the federal agency has out-performed its state counterparts. The area of these in situ schemes can vary from a hundred hectares or so in one village ("mini-estates") to several thousand hectares incorporating land from several adjoining villages. FELCRA now also operates as a commercial plantation company and is seeking to expand its "land bank" both within Malaysia and "abroad".[27]

In both resettlement and in situ schemes, the original model was to establish standard-sized lots for individual households to occupy and manage on their own account, progressively paying back the development costs through deductions from the sale of fruit delivered to the agency's mill. However, given Malaysia's economic development over succeeding decades, other farm- and non-farm employment opportunities have proved increasingly attractive to many landholders. Hence, there has been a shift away from smallholding to centralised

management whereby the oil palm is managed as a single estate, using both local (settler) and foreign (Indonesian) labour, and the landholders, whether the original owners or settlers, receive a return for their land (the net proceeds after plantation expenses are deducted). FELDA, FELCRA, and their state-based equivalents now largely operate in this mode. Again, the convergence around the estate mode of production or "plantation complex" has been a marked trend in the past two decades.

Nucleus Estate and Smallholder Schemes

An equally important and long-standing model is the NES scheme, in which a private or state-owned plantation company establishes a central estate and palm oil mill and provides services to surrounding smallholders, termed "outgrowers" or "plasma" (Barlow et al. 2003, McCarthy 2010, McCarthy et al. 2012a, PWCI 2010; Chapters 3 and 5). The nucleus estate characteristically helped develop the land, provided inputs, credit, and technical advice, and collected and processed the fruit; thus NES schemes were a form of contract farming. Indonesia adopted this form of land scheme from the 1970s (termed Perkebunan Inti Rakyat or PIR) and formed a key part of its transmigration program (PIR-Trans) from the mid-1980s, often with World Bank support. In contrast, Malaysian decision-makers preferred the managed smallholder approach. In most cases, the smallholders in PIR schemes have been Javanese and Balinese settlers or transmigrants, either landless or near-landless, though later iterations of the schemes (from the mid-1990s) have also included local landholders, but under less generous terms (these latter schemes are known as Kredit Koperasi Primer Anggota (KKPA), or Prime Cooperative Credit for Members). The model can be seen as a compromise between the demands of plantation interests on the one hand, wanting access to land with "labour colonies" in the vicinity and economies of scale for their fruit processing mills, and government and donor interests on the other, wanting to provide viable livelihoods for local and transmigrant households, particularly after failed resettlement schemes based only on food crops.

The smallholder contract farmers or outgrowers in PIR schemes, particularly if they were part of the transmigration program, were initially supported by state agencies. Yet the performance of the schemes has been highly variable, depending crucially (as might be expected)

on the commitment and competence of the plantation company in supporting its smallholders (Chapter 3). Subsequently, the Indonesian state withdrew from providing support, placing more responsibility on the plantation companies to interact directly with the landholders or settlers, who under the KKPA schemes of the 1990s, were required to form a cooperative as the vehicle for managing the land and receiving the necessary credit (McCarthy 2010, McCarthy and Cramb 2009, Potter 2012). Landholders in these schemes allocated plots of land for the company to develop, whether they were provided under the transmigration schemes, privately-owned, or land from the village commons, and received a proportion of the developed land back for them to manage. Ideally, 70 per cent of the land was returned to the smallholders and 30 per cent was retained for the nucleus estate, but in practice the proportion returned has often been much less and of lower quality (McCarthy 2010). Moreover, the governance of land, production, and benefit-sharing arrangements remained a problem (Colchester et al. 2007). Disputes often emerged because "plasma" areas were located in remote and poorly developed land or were only returned to the owners after long delays, or because credit repayments were extracted from smallholder production way beyond the period required to repay debts (Chapters 4 and 8).

Joint-venture Schemes

A third mode of production that explicitly avoids the creation of smallholder lots from the outset is the joint-venture (JV) approach. This has been pursued in Sarawak and Sabah in Malaysia (Cramb 2013; Majid-Cooke 2012) and is an emerging approach in Indonesia (Potter 2012). The promotion of these JV approaches throughout the region provides further evidence of a convergence around the plantation complex as the preferred mode for investors to incorporate landholders and labourers in an oil palm development.

In the case of Sarawak, where the JV approach has been most strenuously promoted under the government's *Konsep Baru* (New Concept) policy since the mid-1990s, land is consolidated into a large estate, which is then managed as a single entity by a private plantation company, without reference to any pre-existing or newly laid-out smallholder lots (Majid-Cooke 2006, MLD 1997, Ngidang 2002). The company contributes most of the capital and receives 60 per cent of

the dividends, while the landholders receive 30 per cent, distributed according to the area of land they have contributed. A government agency (the Land Custody and Development Authority or LCDA) is the intermediary, holding the land as trustee for the landholders and entering into the joint venture on the landholders' behalf, while also receiving a ten per cent share of dividends (Bulan 2006). The landholders may or may not be employed on the scheme and have no decision-making role.

This approach has encountered severe problems, with low yields and high debts meaning that most schemes have been unable to distribute dividends to landholders even after a decade or more (Bian 2010, Colchester et al. 2007, Cramb and Ferraro 2012, Thien 2008). Cramb (2013) argues that the poor result for landholders is in part due to structural defects in the design of the JV approach, which creates both incentives and opportunities for the private investor to squeeze the JV company, increasing the cost of services provided by the investor's "sister companies" (including finance costs) and thereby reducing dividends to the landholders.

In Sabah, the JV approach has been promoted more recently. As Majid-Cooke (2012) explains, an amendment to the land law in 2009 has enabled the state to speed up the issuance of communal title to customary lands (rather than go through the longer process of individual titling, as landowners prefer), but with conditions attached that require the land to be developed and managed as a large-scale oil palm plantation.

A model very similar to the JV approach has emerged in Indonesia, termed a "partnership" model (*kemitraan*), though it is less rigid in its implementation than the New Concept approach in Sarawak (McCarthy 2010, Potter 2012, Rival and Levang 2014). When compared to the earlier NES schemes, this "partnership" model represents a radical reshaping of benefit-sharing arrangements. The framing regulation provides that landholders should receive back no less than 20 per cent of the developed land as a "community plantation" (compared with 70 per cent in the NES schemes).[28] The regulation allows that the tenurial and benefit-sharing terms are to be set during negotiations between the investor and landowners. In theory, smallholders can receive the agreed proportion of the developed land back for their own independent management as they did in the past.

However, in many cases districts have created local regulations that only allow landholders to receive a dividend from the oil palm production on their land, which is managed by the investor company (Gillespie 2011, McCarthy, Gillespie and Zen 2012). In other words, companies retain up to 80 per cent of the land for their estate, while smallholders obtain a regular flow of income under a benefit-sharing arrangement from a "community plantation" controlled and managed by the investor. Indeed, landholders are typically promised a share of the profits (though it is termed "rent" rather than "net proceeds" or "dividends"). In many cases, the terms of such benefit-sharing remain unclear to the smallholders, often leading to protracted disputes. Typically, participating landholders need to work on the estate to supplement their incomes under these arrangements, conforming more closely to the long-standing preference of plantation owners of having a pool of tied labour surrounding their estates (Chapter 11).

A new regulation in 2013 has further shifted these benefit- and land-sharing arrangements away from the nucleus estate model and towards the Malaysian shareholding model.[29] Plantations are still required to develop an area equivalent to 20 per cent of their concession area for the community, but this area can now be outside the estate area. This obligation depends on a range of conditions, including the availability of community land. The regulation also requires the plantation to provide shares to communities, increasing gradually to a 30 per cent community stake by the 15th year. In sum, these changes represent a remarkable shift away from the terms enjoyed by earlier generations of Indonesian oil palm smallholders.

Apart from the question of land- and benefit-sharing, these recent Indonesian schemes continue to face challenges of market governance. Policy makers can take measures to support producer organisations, provide for a diversity of market outlets, and improve market co-ordination to enhance the position of smallholder producers in the value chain (Vorley et al. 2012). Indeed, policy makers have developed a system to avoid price manipulation by local mills to deliver a government-guaranteed factory-gate price for smallholders. However, in practice, the system allows plantations to charge production costs associated with oil palm cultivation on top of the interest payments levied on smallholders. Given that participating smallholders have also gifted land to the company in return for inclusion in the scheme, many consider this inequitable. The system also permits plantations

to pass a range of their own operating costs—including marketing, processing, transportation, depreciation, and administration costs—back onto smallholders in a discriminatory manner (Gillespie 2011). In addition, as noted in Chapter 3, state supervision is often perfunctory and in many cases smallholders are unable to obtain this regulated factory-gate price.

Independent and Assisted Smallholders

One feature of the rubber boom of the early twentieth century was the unexpected uptake of rubber by independent smallholders. These were swidden farmers in Sumatra (e.g., the Batak and Melayu) and Borneo (various Dayak groups) but included lowland paddy farmers such as Malays in the peninsula and Sumatra (Swift 1965, Potter and Lee 1998, Dove 1994, 2012). Rubber smallholders were more prevalent in districts away from the plantations as they escaped official attention. Plantation interests conspired with colonial governments to severely limit smallholder production in the inter-war rubber restriction schemes, even in Sarawak where there were very few rubber estates (Cramb 2007). But the shift to smallholder rubber was inexorable, eventually overtaking plantation rubber in both countries. This occurred with significant government support in the post-war era in Malaysia (i.e., through state Departments of Agriculture and the federal Rubber Industry Smallholder Development Authority or RISDA). However, state policy in Indonesia largely overlooked the problems of rubber smallholders. There were some successful smallholder schemes in Sumatra but these proved too expensive for the government to maintain (Barlow and Jayasuriya 1984), while rubber cultivation and production practices in Indonesian Borneo remained almost unchanged for a century (Dove 1994, 2012). Hence, Malaysia achieved a 126 per cent increase in smallholder yields between 1965 and 1980, while in Indonesia smallholder yields increased by only 17 percent over the same period.

Given the trend towards smallholding in rubber, it was no surprise that once transport and processing infrastructure was in place, many smallholders in Malaysia and Indonesia began to plant oil palm independently of any government schemes, investing their own labour and capital in initially relatively low-yield enterprises that nevertheless provided a good return to scarce labour and generated the cash flow

needed to gradually intensify production (Barlow 1986, Cramb and Sujang 2012, Majid-Cooke et al. 2006, Rival and Levang 2014, Soda et al. 2015; *see* Chapter 3). Moreover, many smallholders in NES schemes have eventually become independent of the nucleus estate, except for the sale of fruit to the mill. For smallholders, oil palm may be one of several farm- and non-farm livelihood activities pursued by the household, though often it is the most financially rewarding (Cramb and Sujang 2012, Soda et al. 2015).

In Malaysia, various state and federal agencies have assisted a subset of smallholders with planting grants, inputs (especially seedlings), and technical advice, in the same way as rubber smallholders have been supported over the decades. These "assisted smallholders" have improved their yields and incomes significantly, pointing to an alternative and more cost-effective model than the large-scale, highly managed approaches discussed above (Cramb and Sujang 2013; Chapter 6). The most promising of these approaches in Malaysia has been an arrangement whereby the Malaysian Palm Oil Board (MPOB) brokers an agreement between a group of farmers (members of a local farmers' organisation), a fertiliser supplier, and a mill; the farmers are supplied with fertiliser on credit (and technical advice from MPOB), and the cost of the fertiliser is deducted by the mill when the harvested fruit is received and repaid with interest to the supplier (Cramb and Sujang 2012). Nevertheless, there has been concerted opposition to smallholder support schemes from powerful state actors who would prefer to see large-scale joint ventures develop the remaining suitable land (Cramb 2012).

In comparison, as outlined in Chapter 3, Indonesia's nucleus estates created a generation of independent smallholders. Over time, these operations generated "spread effects" as smallholders planted high-yielding trees on land outside the nucleus estates. More progressive surrounding farmers observed the improvements and began to plant high-yielding stands themselves. As Chapter 3 notes, these "spread effects" should certainly be taken into account in assessing the final results of oil palm policies that aim to achieve socio-economic improvement.

However, following decentralisation, local governments have main the responsibility for assisting smallholder agriculture. As discussed in Chapters 3 and 4, districts show varying degrees of interest towards rural improvement. Consequently, the Indonesian state does very little

to support oil palm smallholders, even though they account for 44 per cent of the planted area compared to 13 per cent in Malaysia.[30] The political economy of Indonesia's oil palm districts is such that state-based elites have few incentives for developing agriculture to improve rural welfare (McCarthy et al. 2012a). Here, poor smallholders often continue to practise subsistence-oriented, low productivity farming alongside forms of cash cropping (typically rubber) and have limited means of demanding services or holding the local state accountable. Given that district governments depend heavily on central government finances, the local state tends to be focused on the expansion of a booming commodity export economy rather than investing scarce administrative resources in promoting broad economic development, and hence the needs of smallholders taking up oil palm tend to be overlooked. Consequently, some farmers gain a foothold in the oil palm economy under favourable conditions, particularly those with access to social networks, capital, and knowledge. At the same time, others are included on less advantageous terms (e.g., planting poor-quality seedlings that have limited yield potential from the outset). This creates an engine of differentiation between those farmers who are able to take advantage of the emerging market opportunities and those who are left behind, with cumulative impacts on patterns of land ownership, poverty, equity, and conflict between these groups (Chapter 4).

A Comparison

The different modes of production described above are not necessarily strict alternatives in any one setting. Even within one jurisdiction, such as the state of Sarawak in Malaysia, differences in land tenure, previous land use, and the mandate of government agencies mean that one or another mode is more likely to be implemented in a given site. However, it is useful to attempt a comparison between some of the major modes in terms of the distribution of benefits to the different actors or "stakeholders". Cramb and Ferraro (2012) prepared budgets for six project types in Sarawak, each involving large-scale development under comparable physical conditions (Table 2.2). The first, second, and sixth project types all correspond closely to alternative modes of production currently implemented in Sarawak—managed smallholders (e.g., SALCRA), joint ventures (e.g., LCDA), and private estates.

Table 2.2. Equity, rental, and advances in six project types in Sarawak, Malaysia

Project type	*Equity (%)*			*Rental (MYR/ha)*	*Advance (MYR/ha)*
	Landowner	*Investor*	*Agency*		
1. Managed smallholders	100	0	0	0	0
2. Joint venture I	30	60	10	0	480
3. Joint venture II	30	60	10	0	480+150 p.a.
4. Joint venture III	15	75	10	500 p.a.	0
5. Fixed rent	0	90	10	1,000 p.a.	0
6. State land lease	0	100	0	741	0

Source: Cramb and Ferraro (2012).

The third, fourth, and fifth project types were included to explore the distributional implications of modifying the current joint-venture approach by reducing the risk to landholders of delayed income.

Figure 2.8 shows the financial implications of the different approaches for local people (that is, landholders, who may receive advances, dividends, or rental, and may also earn wages on the estate), the private investor (who receives dividends), and the state government (which may receive dividends and taxes). Wages to migrant workers are treated as a cost rather than a benefit in this calculation. Moving from left to right in Figure 2.8, the monetary benefits to local people fall away while the benefits to the investor increase. The analysis brings out the strong incentive for investors to seek unencumbered access to state land for private estate development. Where the land is subject to customary tenure (the rationale for the first five project types), both government and plantation interests would be expected to favour one of the JV or rental models over the managed smallholder approach, whereas landholders are significantly better off with the latter mode (as well as having more secure title to their land with this approach). This helps explain the push from landholders in Sarawak for more of such managed smallholder schemes while the government has imposed a limit on their expansion and strongly endorsed the JV model (even though, as noted above, the actual performance of the JV schemes has been well below that projected in its budgets). A similar logic holds for Indonesia, with plantation investors supporting the partnership model (McCarthy, Gillespie and Zen 2012).

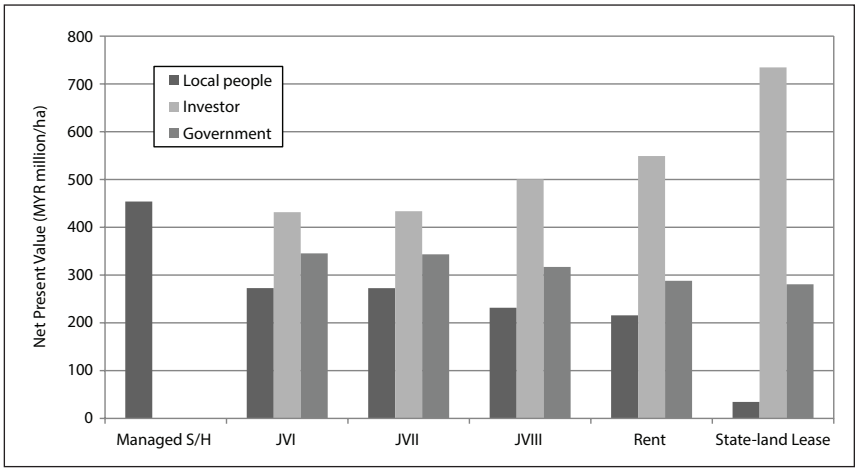

Figure 2.8. Present value of benefits to major stakeholders by project type, discounted at 6 per cent; output price = MYR 600/ton FFB. (Source: Cramb and Ferraro (2012)).

CONCLUSION

Throughout the oil palm complex, it is possible to discern two significant but contradictory trajectories in the modes of production. On the one hand, there is a "capitalist convergence" around the plantation complex or the estate mode of production. This can be seen in the expansion of commercial estates (private and government-linked) within and across national boundaries, and the shift from both managed smallholder and NES schemes to centrally managed estates worked mainly by migrant wage labour. It is also apparent in the shift by state agencies such as FELDA and FELCRA into purely commercial plantation development, locally and internationally, and the pursuit of joint venture or partnership schemes with landholders, in which plantation companies manage all or nearly all of the operation as a single estate while landholders are transformed into shareholders and wage labourers, typically on poor terms. In many cases, this change results in poor distributional outcomes, with smallholders in Indonesia now receiving reduced benefits compared with earlier, more generous, state-supported models. For all practical purposes, these variants converge on a modern form of the plantation complex, with "free" rather than indentured labour.

On the other hand, in both Malaysia and Indonesia there is a smallholder resurgence, reprising the rubber story, mostly without the assistance of the state and even with outright discouragement, particularly in frontier areas where estates are expanding most rapidly (Malaysian and Indonesian Borneo). In Malaysia, where the agrarian transition is more advanced, there is less pressure on the land and more support for smallholders, hence the benefits of smallholder oil palm have been more evenly spread, while in Indonesia the oil palm boom appears to have reinforced a process of agrarian differentiation among smallholders.

The ultimate outcome of these contradictory tendencies is unclear. Will history repeat itself, as with rubber and other plantation crops, where "a vibrant smallholder sector has eventually emerged to dominate the industry" (Byerlee 2013: 39)? To what degree is this outcome an autonomous process, driven by the underlying economics, and to what degree is it a matter of "policy choice", driven by the political interests and influence of various actors within the oil palm complex? To answer these questions we need to explore the interplay between market-driven investment in a booming commodity with specific technical and economic features, the transnational state-agribusiness alliance that has emerged to foster this investment, and the initiatives and responses of rural people and communities throughout the region, whether as landholders, settlers, or migrant workers. This is the task of the chapters that follow.

NOTES

1. Parts of this chapter expand on and update material previously published in R.A. Cramb and G.N. Curry, "Oil palm and rural livelihoods in the Asia-Pacific region: An overview", *Asia Pacific Viewpoint* 53 (2012): 223–39. It is reproduced here with permission.
2. A biodiversity hotspot is a region of high species richness and endemism that is under significant threat. The Sundaland hotspot, extending through southern Thailand, all of Malaysia, and western Indonesia, is where most of the rainforest logging and oil palm expansion has occurred. *Conservation International*, http://www.conservation.org/where/priority_areas/hotspots/asia-pacific/Pages/asia-pacific.aspx (11 Dec. 2013).
3. Compound growth rate computed from time series data in FAOSTAT (2014).

4. Walter P. Falcon, Center on Food Security and the Environment, Stanford University, pers. comm., 10 Dec. 2014.
5. Malaysia's Palm Oil Research Institute (PORIM), now incorporated in the Malaysian Palm Oil Board (MPOB), has made a major contribution to this research, along with the Indonesian Oil Palm Research Institute.
6. The Dura variety was the standard commercial variety up to the 1950s when the hybrid Tenera variety, a cross between the thick-shelled Dura and shell-less Pisifera varieties, was introduced, substantially increasing yields. Yet many Indonesian smallholders have planted low-yielding Dura and Pisifera seeds (Molenaar et al. 2013).
7. The export volumes and values are more closely aligned between the two countries than the figures for area and production would suggest because Indonesia consumes a higher proportion (around 30 per cent) of its output domestically, both as palm oil and biodiesel. Thus, it is the world's third largest consumer of palm oil (after India and China) as well as the largest producer.
8. For example, Suyanto et al. (2004) estimated that land clearing for an oil palm plantation in Riau cost USD 156 per ha using fire, compared with USD 225 per ha using mechanical methods, that is, a savings of 30 per cent. However, more detailed studies with industry representatives have included indirect costs of using fire, such as loss of nutrients (hence increased fertiliser costs) and increased soil erosion (hence reduced yields), and concluded that there is no clear financial advantage in burning (Simorangkir et al. 2002). Nevertheless, fire continues to be perceived as a cost-saving measure and is widely used (Varkkey 2012, 2013).
9. Published estimates for labour requirements vary. Barlow et al. (2003) cite a figure of 3 ha per worker for the Indonesian oil palm sector as a whole. Budidarsono et al. (2013) found an average of 68–75 person-days per ha for established oil palm in Riau, the lower figure for mineral soils and the higher figure for peat soils, implying about 4 ha per full-time worker. They cite an unpublished study that found an average of 91 person-days per year over the entire 25-year production cycle, or 3 ha per worker. Feintrenie et al. (2010) report a ratio of about 3 ha per worker for smallholders in Jambi. However, Schwarze et al. (2015) found an average of only 26 person-days per ha in a survey of 301 established smallholder plots in Jambi, implying as much as 10 ha per worker. This may reflect lower levels of maintenance and less frequent harvesting. For Malaysia, a census of plantations in 2010 found an average of 10 ha per worker, the larger ratio attributable to greater mechanisation of field operations since the 1980s, when the ratio was only around 6 ha per worker (Abdullah 2011). It is significant that in Sarawak, the last frontier

of oil palm expansion in Malaysia, with conditions closer to those in Indonesia, the ratio was just under 6 ha per worker (Abdullah 2011).

10. Nevertheless, processing represents a relatively small fraction of the total production costs of crude palm oil (CPO), hence achieving economies of scale would not make much difference (Derek Byerlee, pers. comm., 24 Mar. 2014).
11. Management of a palm oil mill, *The palm oil mill*, 5 Apr. 2011, http://palmoilmill.co.nz/index.php?option=com_content&view=article&id=57:management-of-a-palm-oil-mill&catid=62:mill-mangement&Itemid=71 (accessed 12 Sept. 2013).
12. This is assuming a price of USD 186 per ton of fresh fruit bunches (FFB) or USD 930 per ton of crude palm oil (CPO) and a discount rate of 6 per cent over a planning horizon of 25 years. The net present value figure is before tax.
13. Venter et al. (2009) estimate a net present value of over USD 7,000 per ha (including the sale of timber) for designated areas of oil palm expansion in Kalimantan (Indonesian Borneo). They calculate that, to change a decision to convert forest to oil palm, a REDD scheme would need to compensate avoided emissions at a price of USD 10–33 per ton of CO_2.
14. One reason for the somewhat lower profitability of Indonesian estates remains lower productivity. In Malaysia, oil palm plantations achieve an average oil yield of 4.6 tons per ha (corresponding to a yield of fresh fruit bunches (FFB) of 23 tons per ha). However, Indonesian plantations achieve 3.6 tons of oil (18 tons of FFB) per ha in Sumatra (where 70 per cent of Indonesian oil palm is located), 3.0 tons of oil (15 tons of FFB) per ha in Kalimantan, and only 2.3 tons of oil (12 tons of FFB) per ha in Papua and Maluku (Coordinating Ministry For Economic Affairs, Republic of Indonesia 2011, p. 106). Indonesian reports suggest that low quality seeds, insufficient fertiliser, and poor infrastructure account for the lower yields achieved there.
15. However, poor smallholders who had not been included in any schemes cultivated just over 1 ha of poor quality planting materials, often without application of fertilisers and other inputs, and earned only around USD 800 per year from oil palm. As discussed further in Chapter 4, such asset-poor smallholders are vulnerable to a "reproduction squeeze" and many end up selling their land to become landless labourers.
16. These areas remain effectively the "free" domain of the state (Peluso and Vandergeest 2001; Obidzinski et al. 2012; McCarthy et al. 2012b). Here the state can legally allocate lands to oil palm developments despite pre-existing customary claims. However, in 2013 the Constitutional Court declared unconstitutional provisions in the 1999 Forestry Law that denied the rights of customary (*adat*) communities to their land and forests.

17. The moratorium supposedly covering an area of 43 million ha was declared by President Susilo Bambang Yudhoyono in May 2011 and recently extended by President Joko Widodo. However, analysis of the moratorium and associated map by the World Resources Institute raised doubts about its implementation due to exemptions, exclusions, and encroachments, and the lack of awareness or enforcement at the local level (Austin et al. 2012).
18. This estimate based on a ratio of 3 ha per worker in Indonesia and 10 ha per worker in Malaysia over the full cycle, that is, including development and established phases (Abdullah et al. 2011; Budidarsono et al. 2013). An estimated additional 10 per cent (i.e., 400,000) are employed in downstream activities (Barlow et al. 2003).
19. This estimate is based on the proportion of the total cultivated area that is managed on an estate basis, including private estates and the federal and state agencies in Malaysia (e.g., FELDA, FELCRA), which now largely employ Indonesian migrant labour, especially for harvesting. However, there is still a significant population of Malaysian Indian plantation workers living and working on oil palm and rubber estates in Peninsular Malaysia (Kaur 2013).
20. However, most migrant plantation workers in fact belong to marginal farming households in their place of origin and can therefore also be considered "semi-proletarian". Whether this is a transitional phase to "free wage labour" or a temporary strategy to support a return to "family farming," or indeed a more or less permanent form of livelihood diversification, is an empirical question. The complementarity between low-wage work on capitalist plantations and subsistence farming (whereby the farm family in effect subsidises the plantation wage bill) is reminiscent of earlier arguments about the "articulation of modes of production" in Sub-Saharan Africa (e.g., Mafeje 1981).
21. The most prominent example is the Permodalan Nasional Berhad (PNB), established in 1978 to acquire and manage assets for Malay and other "indigenous" (*bumiputra*) ethnic groups as part of the economic restructuring of the New Economic Policy. PNB is the wholly-owned subsidiary of Yayasan Pelaburan Bumiputra (the Bumiputra Investment Foundation), chaired by the Malaysian Prime Minister.
22. State-owned enterprises in Indonesia account for 14 per cent of the estate area, or about 430,000 ha (PWCI 2010).
23. Narayanasamy (2014) documents the role of the "big four" Australian banks in financing large-scale land development projects in the Asia-Pacific region (e.g., the NAB's loans to oil palm giant Wilmar, with apparent disregard for the social and environmental risks involved).

24. "Coolies" is a term used in Malaysia and beyond to mean wage labourers, possibly derived from a Hindi word (*kuli*) meaning bonded labourers or even slaves.
25. Sime Darby, which by 1972 had become the largest plantation company in Malaysia with 81,500 ha of oil palm and rubber, was nationalised from 1976 when Malaysian officials gained control of the board. Guthrie, on the other hand, was subject to a hostile takeover in 1981 when the National Equity Corporation (PNB) gained control of the company through a "dawn raid" on the London Stock Exchange. In 1982, PNB acquired a 58 per cent stake in Harrisons Malaysian Estates, with Harrisons and Crosfield divesting its remaining share in 1989 (Martin 2006).
26. In their initial form, managed smallholder schemes were like the nucleus estate and smallholder schemes in Indonesia but without the nucleus!
27. Hanim, A., 29 Jan. 2014. "Felcra to kick off maiden RM1bil property project in April". *The Star Business News*. Available at http://www.thestar.com.my/Business/Business-News/2014/01/29/Felcra-to-kick-off-project-in-April-Its-maiden-property-development-may-take-three-years-to-complete/.
28. This is set out in the Ministry of Agriculture regulation, Permentan No. 26/2007.
29. This is set out in Ministry of Agriculture regulation, Permentan No. 98/2013 Tentang Pedoman Perizinan Usaha Perkebunan.
30. Rival and Levang (2014) note that the Oil Palm Smallholder Development and Revitalisation Program was launched in 2007 and had reached 220,000 ha by 2014. It is funded by the Loan Program for Plantation Revitalisation and through a partnership involving 102 companies and investment of IDR 8.6 trillion. However, McCarthy et al. (2012a) observe that the terms offered the "plasma" smallholders in this program are unfavourable, slowing its uptake.

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CHAPTER 3

Interventions to Promote Smallholder Oil Palm and Socio-economic Improvement in Indonesia

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For four decades, the Indonesian state has pursued developmental policies that saw oil palm as a major vehicle for rural socio-economic improvement. During the New Order period (1966–98) the state followed a model of government intervention to promote smallholder development. In the late 1960s and 1970s, vast programs were developed to assist smallholder rice and food crop (*palawidja*) cultivation, especially in Java. From the late 1970s the state commenced with sustained efforts to promote tree crops, partly as a means of developing previously neglected regions of the outer islands, and partly to "rescue" the by then huge transmigration settlements, which had often failed due to their reliance on rice and other subsistence crops.

In the 1970s and 1980s, development analysts heavily criticized this interventionist approach to assisting small cultivators in light of what was seen as a dismal record in many parts of Africa, where subsidies, taxation, regulatory controls, and direct public participation in the production and handling of agricultural commodities, including oil palm, were widely employed in the postcolonial era (Bauer 1976;

Bates 1981). The argument was that such interventions were costly and largely failed to meet their social and political objectives. They were also regarded as undermining market efficiency, monopolizing scarce technical skills and other resources, bolstering and protecting powerful classes, and producing serious long-run distortions that often led to economic disruption. The critics of intervention argued that "a government which governs best is that which interferes least", and that a market-based approach was far more effective.

These criticisms were accepted by many practitioners of rural development, especially the multilateral development banks (World Bank 1981). Hence, previous interventions in African states were largely dismantled in the 1980s (World Bank 1999). However, in rural Asia developmental states maintained interventionist approaches for social and economic purposes for longer and, indeed, augmented these approaches, as governments remained more independent of international development practitioners. Thus, Pletcher (1991) showed how, with oil palm, the Malaysian state, through the Federal Land Development Authority (FELDA), successfully promoted the interests of its poorer citizens, while at the same time securing the growth and international competitiveness of the sector (Chapter 2). The role of the FELDA, a parastatal agency run by specially appointed staff, was mainly in organizing, on the basis of smallholdings, the production, processing, downstream manufacture and international marketing of what, by the 2000s, had become one-fifth of Malaysia's total oil palm crop. In doing this, large increases in incomes were provided to over 300,000 families and 1.5 million people. Manifestly, there were difficulties, particularly in later years when the smallholder areas under the Authority had to be converted to an essentially estate basis following the ageing of original settlers and migration of most young people to urban areas. Yet this did not negate what had been a major achievement, and arguably adjusted the gigantic enterprise towards better sustainability.

In Indonesia "micro-interventions", comprising both provision of infrastructure and services, and "targeted" programs, including credit, extension, and research, often proved profitable and usefully overcame incomplete markets for credit and information (Barlow 1997, 2001). On the other hand, "macro-interventions", comprising the exchange rate, trade, and price administration measures, were almost exclusively damaging and ineffective. With respect to the latter, the far more

open Malaysian and Thai regimes stood out as assisting development more adequately than what were, up to the mid-1990s, the inward-looking macro policies of India and, to some extent, China. However, over the last decade, state policy makers in Asia have abandoned this interventionist approach. As we will see, the shift away from state interventions towards approaches that are driven by private-sector plantation investors has had a marked effect on the socio-economic status of rural populations in the region.

When examining Indonesian policies, and especially in making international comparisons, the reigning political settlements and regional geographies have to be taken into account (Chapter 1), as they significantly affect outcomes. Thus, a system working well under the Malaysian conditions of a centralized and powerful government and relatively uniform geography is likely to be less suited to Indonesia, where any system must cope with decentralized political control, a formally more plural or democratic situation, and extensive, agro-climatically diverse regions in Sumatra, Kalimantan, Sulawesi, and other "outer islands". Yet, as described in Chapter 2, Indonesia has achieved dramatic growth in oil palm production. Between 1995 and 2014 the area under oil palm increased more than fivefold to exceed 10 million ha (Figure 2.1). The industry has been expanding in area by 12 per cent per year in the 2000s and now engages the efforts of well over three million labourers and small farmers (Dirjen Perkebunan 2008). By 2011, state-owned plantations accounted for 8 per cent of the total area, smallholders for 38 per cent, and private plantations for 54 per cent (Table 3.1). Smallholders and private plantations between them accounted for almost all of the rapid growth in the last two decades, with smallholdings growing at 25 per cent in the mid-2000s, almost twice the growth rate of private estates. Nucleus estate and smallholder (NES) schemes, the principal means for engaging smallholders, accounted for over 1 million ha of oil palm in 2008, stretching from Sumatra to Papua—with 63 per cent in Sumatra, 26 per cent in Kalimantan, and 11 per cent in Java, Sulawesi, and Papua (Dirjen Perkebunan 2008).

This chapter examines the development of the NES schemes, the emergence of independent smallholders, and the more recent "joint-venture" or "partnership" (*kemitraan*) arrangements (Chapter 2). The analysis is based on the results of a major survey in the early 2000s,

reported in Barlow et al. (2003) and PT Capricorn Indonesia Consult, Inc. (2004), and a follow up survey conducted in 2014. We argue that the outcomes associated with oil palm development closely follow policy trends that are shaped by wider contexts. In the 1970s and 1980s, when Indonesia's oil palm policy originally took shape, the focus was on poverty alleviation. In the context of an emerging developmental state with limited capacities, the emphasis was on enhancing state capacity, for instance, by providing effective forms of extension and access to high-quality planting material. Since the 2000s, policy settings have reflected a shift towards developmental narratives that stress the role of the private sector in a "new" business-led agriculture.

Table 3.1. Area of oil palm, areal growth rate, and crude palm oil (CPO) production in Indonesia by mode of production, 1980–2011

Year		*Government Estates*	*Private Estates*	*Smallholdings*	*Total*
1980	Area ('000 ha)	200	89	6	295
	Production ('000 t)	499,000	222,000	1,000	721,000
1990	Area ('000 ha)	372,000	463	291	1.127
	Areal growth (%)[a]	6.4	18.0	28.1	14.5
	Production ('000 t)	1,247	789	377	2,413
2003	Area ('000 ha)	561	2,555	1,811[b]	4,926
	Areal growth (%)[a]	3.2	14.0	15.1	12.0
	Production ('000 t)	1,716	4,778	3,257	9,750
2007	Area ('000 ha)	688	3,530	2,565[c]	6,783
	Areal growth (%)[a]	4.7	14.6	25.2	12.3
	Production ('000 t)	2,314	9,254	5,805	17,373
2011	Area ('000 ha)	638	4,321	3,078[d]	8,036
	Areal growth (%)[a]	1.4	6.2	9.0	6.3
	Production ('000 t)	690	14,508	8,7978	23,996

Sources: Direktorat Jenderal Bina Produksi Perkebunan (2004); Direktorat Jendral Perkebunan (2008, 2013).

[a] Annual compound areal growth rates, 1980–90, 1990–2003, 2003–07, and 2007–11.

[b] Including 897,457 ha in NES plasma and a balance of over 900,000 ha of individual holdings.

[c] Including KKPA *kemitraan* schemes and Rehabilitation Schemes in NES plasma and small-scale individual holdings.

[d] Including Revitalisation Schemes.

CONTEXT FOR GOVERNMENT INTERVENTIONS IN SUPPORT OF SMALLHOLDERS

Indonesia adopted initiatives utilising oil palm and other tree crops against a background of widespread poverty in the outer islands, where a large, very poor rural population that was not conversant with high-input agriculture lived side by side with a prosperous commercial plantation sector. While many small farmers in these regions cultivated tree crops, including oil palm, as a spread effect from estates, their stands have tended to be low-yielding and land-extensive, providing low returns per unit of area compared to industrialised plantation agriculture. At the same time, the widespread provision of timber plantation and oil palm estate licenses put great pressure on land areas classified as forest estate in an environment already diminished by timber extraction. Indeed, the World Bank has reported that 70 per cent of Indonesia's oil palm plantations were established on land that previously formed part of the national forest estate (Chapter 2). An even greater concern for environmentalists was that plantations had established around 25 per cent of Indonesia's oil palm on peatlands, destroying vulnerable ecosystems and generating large carbon emissions.

Although a few farmers made autonomous transitions to high-yielding varieties and secured major income increases, these tended to be staff and workers from estates along with some well-endowed local business persons. While relatively few ordinary farmers took such action, these progressive farmers bought up large areas of land as they became successful, creating the issue of agrarian differentiation and rising inequality analysed in Chapter 4. In this context, the government or a civil society organisation might intervene to secure the shift to more productive oil palm agriculture. As the state has been the main actor concerned with smallholding tree crops in Indonesia, this chapter focuses on state interventions.

State planners have regarded some regions of the outer islands as suffering from especially severe poverty and environmental problems. Accordingly, planners have paid particular attention to secure regional development in these areas, including southern Sumatra, and eastern, western and central Kalimantan. State decision makers saw areas in Kalimantan, in particular, as being covered by large areas of the creeping and economically useless grass, *alang-alang* (*Imperata*

cylindrica), which they viewed as the legacy of deforestation by timber companies and illegal loggers, or of clearing for food crop cultivation in transmigration schemes (Dove 1986). The policy view was that the frequent burning during the dry season of both *alang-alang* and unutilisable timber posed additional environmental hazards through smoke and haze, as this damaged the health of local residents. These circumstances were seen as justifying the issuance of long-term lease titles (*hak guna usaha*) to companies without substantial payments, in the process securing what state decision makers saw as a better option—oil palm development.

From a policy maker's perspective, a development strategy should aim to introduce socio-economic improvements that match local resources with agro-climatic endowments, providing agricultural production models that can be adopted sustainably and profitably by local farmers and transmigrants. If the strategy introduces yield-increasing forms of agriculture that are more intensive, this will reduce the pressure on the limited area of land available. From a national planning viewpoint, planners could justify approaches that generate higher national income and foreign exchange. In the 1970s, official smallholder plantation policy focused on rubber, which was already well known to local people, cultivated in low-yielding mode over vast areas, and marketed through a competitive chain of traders. In those years, decision-makers could build on an existing base, an easier alternative than starting with a fresh crop. However, from the mid-1980s, the revenue-earning superiority of oil palm over rubber became clear, and the chief thrust of new initiatives focused on this newer crop.

For state development planners, the principal constraints facing improvement plans remained the scarcity of development capital, although this was not acute until the 1997 financial crisis. Where tree crop extension services (*Dinas Perkebunan*) lacked adequate staff and had been perennially underfunded, the more immediate challenge continued to be the shortage of skilled personnel to implement the needed changes. The rubber improvement schemes of the 1970s and early 1980s, which were largely implemented by the Smallholders' Rubber Development Program, progressively overcame this problem, building a most effective operation with funding from the World Bank (Zen 1998). This separate venture, taking place alongside the traditional tree crop extension, engineered most of the new initiatives over those years.

However, when state planners and investors became interested in oil palm, the focus changed. Given the vast size of the schemes envisaged and the need to have large palm oil mills to ensure the necessary economies of scale in processing, state planners turned to private estates to supplement state support. Private sector actors had the required managerial and technical skills, huge palm oil mills, and ready access to capital. The Commonwealth Development Corporation had pioneered the "nucleus estate" model in Africa in the 1950s and this approach had been widely employed on that continent (Graham and Floering 1984). The Indonesian authorities adopted this model and from the late 1970s to 2000 applied it to extensive areas in the outer islands. Beginning with the nucleus estate and smallholder (NES) model, we discuss and evaluate the succession of state policies and schemes implemented since the 1970s.

NUCLEUS ESTATE AND SMALLHOLDER (NES/PIR) SCHEMES

For the purpose of smallholder development, the nucleus estates policy aimed to provide a "package" comprising management, technology (including high-yielding trees), and services, entailing the opening and planting of land, the supply of inputs, and processing. The government made this package available with a commercial nucleus or "core" (*inti*) and a surrounding plasma of smallholdings in two to three hectare units, hence the Indonesian term *Perkebunan Inti Rakyat* (PIR). From the late 1970s, the policy put pressure on estates to undertake such plasma development, giving them "free" access to land for the *inti* and providing subsidized capital for developing both the *inti* and the plasma.

A total of almost 900,000 hectares was planted as smallholder plasma up to 2003 (Table 3.1), involving 400,000 settlers and almost two million people. For many years the policy allocated 20 per cent of the total estate area to the nucleus, but this rose to 40 per cent after 1998, reducing the risk to the plantation company. The usual arrangement was for the company to clear the plasma land, plant the tree crop, and administer the development for four years, during which some employment was offered to the settler-smallholders. After this period, an elected settler cooperative took responsibility for administration of the plasma, normally contracting the nucleus estate to

continue the functions of management, extension, and provision of services. The cooperative handled the repayment of plasma development loans, with 30 per cent of the net crop proceeds being deducted to cover the subsidized interest of 12 per cent and charges for inputs and services. The nucleus estates benefited through their fees for services and through their returns from milling smallholder fruit into crude palm oil.

Five types of NES/PIR scheme were established from the beginning in 1978, as summarised in Table 3.2. While the first, known as PIR *Lokal*, only provided for surrounding farmers, subsequent types catered for both transmigrants and locals coming from failed food crop schemes, with priority often given to the former. One problem was apparent from the start that policy makers never properly rectified: over the four years before the oil palm became productive, schemes provided inadequate income for subsistence. Although the estates sometimes employed settlers, notably in opening and planting the plasma land, this was generally not sufficient. Schemes did not allow settlers to inter-crop their young oil palm stands, which could have substantially supplemented their returns. Further, over the first two decades, the nucleus estate mills did not pay satisfactory prices for the smallholders' fresh fruit bunches (FFB). Policy makers only improved this from 1997 when they altered the official pricing formula. Even then, the 2 ha of oil palm per settler hardly provided a reasonable income, especially in the early lower-yielding years. But after 1997, the schemes allowed participants to plant oil palm on their additional food crop area of 1 ha, and they universally took advantage of this.

If they could sustain themselves through this period, settlers' situations usually improved greatly when their palms came into full production after nine to ten years. Provided the cooperative operated well, the oil palm grew according to its potential, and the governance arrangements functioned effectively, this stage provided smallholders with the opportunity to complete both their principal and interest payments. Although there were exceptions, most of the farmers in plasma areas established up to the mid-1990s were doing well by the mid-2000s. However, there was considerable variation in performance between different NES schemes. The competence of the nucleus estate's management shaped outcomes, affecting the way the land was originally "converted", the quality of the planting material and how it was cultivated, the standard of the product, the handling of settlers,

Table 3.2. Types of nucleus estate and smallholder (PIR) scheme

Type	*Main features*	*Performance*
A. PIR *Lokal* (from 1978)	On government estates only. Solely for local farmers surrounding estates. Each settler allocated 2 ha of oil palm, with all settler land in PIR *Lokal* and in B through E being given by the local farmers in return for their inclusion.	Poor. Major problems with failed subsistence food crops and consequent lack of food during four-year immaturity, which resulted in lack of other incomes especially in remote areas. The allocated 2 ha of oil palm also gave insufficient income, especially as government set too low a price for FFB and stipulated a 30 per cent deduction. Many settlers abandoned their lands, selling them to prosperous traders and others.
B. Assisted PIR (from 1984)	On government and private estates, partly funded by WB and ADB. Priority for (1) locals and (2) transmigrants, some of whom were from failed schemes whose land now became available. Each settler with 2 ha of oil palm and 1 ha of food crops, including house area. Schools, health centres, markets, and roads also provided.	Reasonable. Problems again with failed food crops and lack of other incomes. Fewer settlers left the plasma, and once trees began to produce incomes, the situation was better for participants, especially following government's upward revision of the price from 1987. Difficulties remain due to the 30 per cent deductions up to the time of loan repayment. From 1997 following relaxation of rules, settlers also planted 1 ha of food crop areas with oil palm. This, together with higher yields after trees were nine to ten years old and other outside activities, led to much improved incomes and enabled loans to be finally repaid.
C. Special PIR (from 1984)	On government and private estates, funded by Indonesian Government. Priority for (1) transmigrants and (2) locals. Areas and other facilities as under B, but 35 square metres added for housing.	Reasonable. Transmigrants especially had problems with failed food crops since land was not suitable for these. Other conditions, and improvements post-1997, were similar to those for (B). Most of food crop area has been replaced with oil palm. Income much better than for A.

Table 3.2. continued

Type	*Main features*	*Performance*
D. Accelerated PIR (from 1984)	On government and private estates, funded by Indonesian Government. For transmigrants only. Areas and other facilities as under B and C.	Reasonable. Severe problems remain with food crops related to soil problems. Other conditions and improvements post-1997 were similar to those for B and C.
E. PIR *Trans* and KKPA (1986–2000, replacing B, C, and D)	On government and private estates, funded by Indonesian Government, but interest on KKPA loans later raised to 16 per cent without further subsidy. For both transmigrants and locals, land from the latter was included in the scheme. KKPA allocated no area for food crops or housing.	Reasonable, similar to B, C, and D.
F. *Revitalisasi Perkebunan* (2006–10)	On government and private estates, funded by Indonesian Government. Similar to D, subsidised interest rate of 12 per cent (cf. commercial interest rate of 16 per cent).	Replanting program for old trees. Slow achievement by 2008, replanting 112,433 ha, well below the target of 1.3 million ha by 2010. New planting does not work well due to low credit and land conflict between central and local (*kabupaten*) authorities.
G. Smallholder Siak schemes (2005–08)	Local government financed and administered for poverty alleviation of Malays living along Siak River in Riau. Schemes for 16,000 poor families on 8,500 ha, developing plasma on local community land. Large plantation company acting as contractor, monitored by the Indonesian Oil Palm Research Institute (IOPRI) to achieve best agricultural practices.	It is likely that the schemes will reduce poverty due to the subsidised interest-free loans, high quality of planting material, and the fact that farmers retain alternative income from old rubber trees and fisheries.

and relations with cooperatives and other parties, including local governments and transmigration officials. For estate managements geared to profitably run commercial units, the realm of socio-economic improvement for smallholders involved new challenges, with a temptation and indeed a tendency to emphasize the production needs of the nucleus over the smallholder plasma area, given that this was after all the "profit core" of their operation (Figure 3.1).

Figure 3.1. "Plasma" smallholder collecting fruit in a long-established NES scheme plot, North Sumatra (Photo: Zahari Zen)

From the late 1990s, major political changes complicated the situation, impinging upon the relations of estates with the local communities. Estate managers frequently took a heavy-handed approach, making it hard for them to solve the serious land problems that had emerged. These problems arose from a variety of practices during the New Order period. Critics have argued that oil palm development continued a process of state-supported extinguishment of customary or "informal" land rights that had commenced in the 1970s (Barr 2001). A governance minefield opened up as, in allocating land to estates, state policy involved the forcible enclosure of areas that were previously cultivated by local villagers or subject to various customary

or community claims. Under New Order practices, the original owners only received nominal compensation. In many cases, such transfers were not properly documented and took place in a context of intimidation. As oil palm estates thrived, villagers who were left watching this affluence generated from their former lands became bitter (Sulaiman 2000).

Hence, estate lands were frequently disputed, and many hundreds of individual parcels within plasma areas of several thousand hectares became subject to land claims. To settle disputes under the changed political conditions, estates wishing to develop new areas needed to secure individual agreements. Where relations with landholders were not well managed, this generated prolonged disputes. In many cases, local settlers contended that they were entitled to a smallholding area above their entitlements under the schemes because they had contributed extensive areas of land to the schemes (Chapter 5). Often, local farmers contributed their land to the nucleus estates without being later included in the plasma. Field studies found that that these difficulties often led to the freezing of large blocks, including those in existing plasma, disrupting operations for long periods and, in some cases, indefinitely.

Estate managers often had disagreements with local governments. Following decentralisation, these disputes became more serious as district administrations gained discretionary powers. It took some time for a generation of managers used to ignoring local officials to realize they now needed to develop rapport with local officials, who could otherwise make operations very difficult for them. In one case studied in the province of Bengkulu, the district head (*bupati*) blockaded the main access road into the estate for several months, making it hard to export its products until the estate agreed to defer to his demands on a particular issue.

In several cases, interviews revealed that managers lacked competence even in running normal commercial operations, and this carried over into the plasma where, for example, wage payments to workers were delayed and were lower than the amount previously agreed. In one case, furious settlers took over the estate offices and ran the operation themselves. In another case only 200 ha of a 500 ha plasma had been developed after several years, and even then, only poorly, as the technically competent estate management was unable to establish workable relations with local settler groups. Apart from the problems

in plantation management, however, difficulties also arose when the Department of Transmigration and Manpower selected unsuitable settlers who failed completely and eventually dropped out of the schemes.

Discussions with farmers and estate staff revealed that the transfer to settlers of the requisite skills also proved difficult, especially when settlers in the schemes had non-agricultural backgrounds. In some cases, it took many years for such settlers to competently handle their lots, especially given that harvesting and other operations required much expertise. When managers used to dealing with hired workers ignored this training problem, the results were inevitably poor. However, where estates instituted proper and sympathetic extension, the schemes could increase net returns for all concerned. Indeed, many estate companies adjusted well following earlier setbacks, and managed to achieve excellent results.

During a field visit to several estates, it became clear that one large corporation engaging in numerous nucleus estates had set up a special section to deal with settler extension and community relations, concentrating on the 20–30 per cent of participants with particular difficulties. This company, whose commercial results were already excellent, secured better than average settler performance and cordial relations, raising both the settlers' and its own earnings. This was still within the framework of discipline and effective supervision necessary for such extensive operations. Commercial companies tended to perform better than government estates in the NES program due to more imaginative and flexible styles of management, and because their pursuit of the "bottom line" provided an incentive to manage settlers more effectively.

A 1989 World Bank Group (WBG) review of its oil palm portfolio found that the management capacity of Indonesian state-owned enterprises was low. The government had been slow to pass funding on to enterprises and, overall, several loans performed poorly. Subsequently, the WBG concluded that the Indonesian oil palm sector needed to be driven by the private sector (CAO 2009). Indonesian policy then began to shift from the state-led approach to a private-sector orientation. In 1995, the government introduced the "Primary Cooperative Credit Scheme" (KKPA). Now, rather than poor transmigrant settlers brought in from Java and Bali as under many of the earlier schemes, indigenous villagers were offered incentives to give

up large areas of land to the nucleus estates. In return, they would obtain a 2 ha oil palm smallholding (McCarthy 2009). In other words, indigenous landowners would provide land to the estate in return for obtaining a productive smallholding and access to agricultural inputs and guidance. Bank Indonesia provided low interest loans under this scheme. These KKPA schemes developed 192,725 ha of plasma smallholders and 78,524 ha of nucleus estates (Dirjen Perkebunan 2008). The government policy aimed to speed up smallholder oil palm and rehabilitate earlier smallholder plasma areas. The KKPA schemes represented a withdrawal from earlier government interventions as the state was much less involved in the early phase of estate development.

Bank Indonesia, which provided the funding for the KKPA program, was frequently slow in its disbursements to the commercial banks that managed the loans, while the latter coordinated poorly with government agencies and plantation companies. This led to delays of months or even years in land clearing and planting, incurring higher expenditures in the interim to support plasma farmers. Interviews with project staff and farmers revealed that cooperatives on occasion functioned poorly, especially in earlier years when those responsible had to engage in a huge learning process, and corruption amongst the elected officials led to losses of settlers' money. But these complications were again often surmounted, especially under pressures from an increasingly knowledgeable and vociferous membership and in a process where cooperatives adjusted towards better administration.

Despite the problems associated with the various types of NES scheme, estimates indicated quite reasonable average outcomes (Tables 3.3 and 3.4). The estimated mean internal rate of return (IRR) of plasma smallholdings over the 28 years involved was 15 per cent after deduction of land charges, which in practice do not always apply. This compares with an estimate of 18 per cent after land charges for purely commercial estates. A good part of the substantial net return per kilogram of the plasma (Table 3.3) flows back to the settlers, adding to the "wage" of IDR 21,000 per day paid for harvesting and other manual inputs.

Yet these results disregard considerable differences between settlers. In the course of this study, the researchers checked individual farmer's record books, finding a variation of at least 50 per cent around mean plasma yields. Again, some schemes, particularly those making

Table 3.3. Expected prices, yields and costs of alternative modes of oil palm production in Indonesia, 2005

Item	*Estate*	*Plasma smallholding*	*High-yielding smallholding*	*Low-yielding smallholding*
Factory-gate price (IDR/kg FFB)[a]	600	573	495	441
Yield of FFB (t/ha)	21.3	19.0	17.0	10.0
Interest rate (%)	12	12	12	12
Wage (IDR/day)	21,000	21,000	18,900	18,900
Harvesting cost (IDR/kg FFB)[b]	60	60	54	54
Overheads (IDR/kg FFB)	19.8	18.9	5.4[c]	2.7[c]
Capital (IDR/kg FFB)[d]	9.0	10.1	8.8	1.7
Land (IDR/kg FFB)[e]	28.2	31.6	35.3	50.0
Total cost[f] (IDR/kg FFB)	289.4	299.8	265.3	290.6
Net return[g] (IDR/kg FFB)	310.6	273.2	229.7	150.4
Official investment cost ('000 IDR/ha)[h]	–	19,019	1,300	–

Source: Data secured during Indonesian oil palm study, 2002–05.

[a] Fresh Fruit Bunches

[b] All-in, including value of housing and all perquisites provided to workers.

[c] Assuming that the overheads of high- and low-yielding smallholdings are 30 and 50 per cent respectively of those on estates and plasma smallholdings.

[d] Charge for interest on working capital in the enterprise.

[e] Charge for interest on the value of land.

[f] Including upkeep, fertiliser, harvesting, overheads, capital, and land (but not expenditures on any services provided by government departments including the *Dinas Perkebunan* and *Biro Transmigrasi*).

[g] Factory-gate price *less* total cost as defined in 'f'.

[h] For plasma smallholding, this is the total cost including overheads of getting the stand to production. Most of this is repaid at interest, but that could take six to eight more years. For high-yielding smallholding this is the cost of providing subsidized seedlings and extension by the *Dinas Perkebunan*.

the adjustments just discussed, did much better than average. But even most of the worst-performing entities have survived, though the returns per settler were much lower. In an overall assessment, the NES schemes can be judged to be a moderate success, despite the persistence of problems that require solutions if this approach is to be further developed (Figure 3.2).

Table 3.4. Expected Internal Rates of Return (IRRs) and Net Present Values (NPVs) for alternative modes of oil palm production in Indonesia, 2005

Item	*Estate*	*Plasma smallholding*	*High-yielding smallholding*	*Low-yielding smallholding*
IRR (%)				
with land cost	18	15	18	12
without land	20	16	21	19
NPV (IDR '000)				
with land cost	11,852	6,066	6,975	negative
without land	15,477	9,720	10,832	4,485

Figure 3.2. Harvesting very tall palms in the North Sumatra Smallholder Development Project (Photo: Zahari Zen)

INNOVATIONS POST-1998

After the Asian financial crisis, Indonesia witnessed a debate over how socio-economic improvement might be achieved through oil palm development. While earlier initiatives certainly had positive impacts, rural poverty remained widespread in the outer islands. Hence, advocates of further expansion argued that growing oil palm in targeted schemes could continue to contribute to poverty reduction. Policymakers still considered the development of nucleus estates as the basic framework for the future. Clearly, following decentralisation, district and provincial governments would have a more substantial role. Given the reduced financial capacity of the state and the shift towards more market-based philosophies, state policy shifted further towards private sector models of oil palm development, with greater local variation as a consequence of decentralisation. These innovations and their performance are now examined in more detail, before considering how they might be developed in coming years.

Improvement of Individual Smallholdings

A majority of the current area of Indonesian individual oil palm smallholdings is planted with low-yielding palms, whose estimated average annual yield of FFB is only 10.0 tons per ha, compared to 21.3 tons per ha on estates (Table 3.3). Smallholders generally purchase them from small private nurseries or travelling traders. The low price per seedling (about IDR 4,000) appeals to farmers who are short of cash and who need to establish around 140 palms per ha. Given that farmers lack technical knowledge regarding the effective use of high-quality planting material, it is difficult for them to distinguish between such poor materials and the more than twice as expensive high-yielding seedlings sold by large nurseries or sometimes by private estates. Nurseries offering high-quality material tend to be difficult to access and hence involve additional transaction costs. In many cases, inferior palms are planted haphazardly without terracing, and fertiliser applications tend to be low. Given that these are local smallholders, they can usually access land without the substantial charges that tend to be applied to estates and other outsiders. They accordingly secure an estimated IRR (without land costs) of 19 per cent (Table 3.4), but their smaller total output means they obtain only half the estimated net present value of plasma smallholdings.

Despite many governance and land rights problems, oil palm development has demonstrated a capacity to lift many marginal farmers out of poverty. The expansion of smallholder area at over 12 per cent per year from 1990 to 2011 attests to the economic attraction that oil palm holds for local farmers. Yet, smallholders face many challenges. They need access to substantial funds to purchase superior planting material, fertilisers and pesticides, and need to develop better planting and harvesting skills. They also often have trouble getting fresh fruit bunches to mills in time, especially in the wet season or in remote areas where roads were poor. Hence smallholders might achieve only 24 per cent of the productivity of the average plantation, and just 12 per cent of the productivity of best-practice plantations (CAO 2009).

Most local smallholders have little contact with tree crop extension officers. In contrast, where the local tree crop office (*Dinas Perkebunan*) has had contact with individual smallholdings, this has led to the distribution of high-yielding materials from reputable nurseries. In the case of rubber, a small proportion of smallholders who were enabled to plant better trees and employed improved techniques doubled their yields over the 20-year life of the stands (Barlow and Muharminto 1982; Zen 1997). In some areas, similar results have been achieved with oil palm. For instance, the Indonesian Oil Palm Research Institute (IOPRI), the local *Dinas Perkebunan*, and local estates developed a joint initiative in several locations in the 2000s. The companies set up large nurseries selling improved seedlings at subsidised prices, with the *Dinas* carrying out an extension program that led to widespread adoption of the improved planting material. More recently, IPORI has implemented a special mobile program of selling subsidised seedlings and providing extension services to smallholdings in Sumatra, from Aceh in the north to Lampung in the south.

However, the budget to support these activities is small; if the government could scale up this mobile program it could have a considerable impact on smallholder productivity by avoiding the locking-in of holdings to low-yield profiles.[1] Moreover, as with nucleus estates, these initiatives have been affected by recent political changes, notably decentralisation. This leaves the local *Dinas* almost exclusively under the control and financial jurisdiction of districts, which show varying degrees of interest in rural improvement. Sometimes, and especially in the richer provinces such as Riau, Aceh, and East Kalimantan, the programs of the *Dinas* have been strongly bolstered, and assisted

further by special subsidized loans. In other instances, however, the *Dinas* are even more constrained than they were under the New Order, when they were at least assured of a minimal level of finance.

Wealthier local investors have been more likely to plant high-yielding oil palm, sometimes up to 10–20 ha, typically employing labour on what are still considered "smallholdings". There is also a class of smallholders, frequently in-migrants (*pendatang*) from other parts of Indonesia, who have moved into frontier areas and planted high-quality materials on their 2–3 ha. These "high-yielding" smallholders have received input from both the *Dinas* and their wealthier, more knowledgeable smallholder neighbours. Their average yields were estimated to be 17 tons per ha (Table 3.3). With lower labour and other costs compared with estates, they managed a mean IRR of 18 per cent after land charges, with a substantial net present value (Table 3.4).

Thus, those who have established high-yielding trees on independent smallholdings have secured sizeable increases in income. If this approach were to be extended to "low-yielding" smallholders, it would mark a significant advance. It is hard to estimate the current extent of such improved holdings, but it probably does not exceed 250,000 ha out of the total of over 900,000 ha of individual oil palm holdings (Table 3.2). Therefore, a great deal of further improvement could be achieved. In many ways, advances through small independent smallholdings are more flexible than those through the comprehensive package of the nucleus estate schemes that require careful control. In addition, they certainly involve much less government finance to support their establishment (Table 3.3), and this is most advantageous in circumstances of scarce development capital. They can also be seen as more appropriate to the new Indonesian era of devolution and greater individual independence.

Both nucleus estate and individual smallholding operations also generate spread effects. These effects emerge from the training given and the encouragement to plant elsewhere, thereby extending the total area in the hands of smallholders. Field visits for this research demonstrated that numerous plasma settlers had planted high-yielding trees on land outside the NES schemes, while some individual smallholders who had planted high-yielding material had subsequently decided to extend their operations. Moreover, surrounding progressive farmers observe the improvements made by their neighbours, consult them,

and plant high-yielding stands themselves. There are always considerable lags in such diffusion of innovations due to both the time required for the learning process and the time needed to amass sufficient capital to take action. But these spread effects should certainly be taken into account in assessing the final results of oil palm policies that aim to achieve socio-economic improvement through support for smallholdings. At the same time, these spread effects can involve successful farmers buying up large areas of land, sometimes in crisis sales from impoverished local landowners. This can then give rise to agrarian differentiation and the emerging problem of landlessness (Chapter 4).

Private-sector Initiatives

Other players besides government have attempted the socio-economic improvement of rural populations, and three initiatives of large commercial companies that were scrutinized in the first phase of fieldwork for this chapter are now explored.

One venture was undertaken by a medium-sized oil palm plantation company in Sumatra which, with advice from IOPRI and the official livestock extension service, commenced in 1996 a scheme for distributing cattle to its 500 employees. The company negotiated and then administered a seven-year loan from Bank Rakyat Indonesia, which enabled the distribution of three animals to each employee family. The cattle grazed under the oil palm tree, with supplementary feeding on oil palm waste and kernel cake (Figure 3.3). These animals were used for breeding and fattening, and as well as for transporting harvested FFB. By 2003, the number of cattle in the scheme had doubled, while the area harvested per worker had risen from 10 to 15 ha and the incomes of those concerned had been commensurately increased.[2] Interviews with participants revealed that the scheme was well managed by the estate staff, who also sought outside professional advice on health and feeding regimes.[3] It also featured excellent continuing relations with the communities involved and may be judged as an outstanding success.

In a second case, a large commercial plantation company, under pressure from the local community and government following the failure of a plasma enterprise and retaliatory destruction of estate facilities

Figure 3.3. Integration of beef cattle in an oil palm holding in Central Kalimantan (Photo: Wahyudi Nugraha)

by dissatisfied local residents, began to establish 20 ha "community oil palm areas", one beside each of the 26 villages. While the company established and subsequently managed the areas at a high technical level, liaison with the local communities remained poor so that the latter were hardly involved. Thus, they learned little, which was ironic as the areas would eventually be handed to them to manage. The company could improve this approach with a more intensive extension effort, far more local participation, and the promotion of better relations with the villagers concerned (Zen et al. 2005).

In the third case, a very large company with several nucleus estates modified its established mode of operation. In a similar fashion to the Malaysian joint-venture model examined in Chapter 6, in this joint-venture (*pola patungan*) approach, rather than allocate 2 ha blocks to settlers when the oil palm had matured after four years, the company instead provided share certificates for the 2 ha. The company gave settlers the choice of working in the plasma area under the cooperative, who had been carefully trained by the company in management and administration, or becoming regular employees in the nucleus estate (*inti*) workforce. The company financed this initiative to avoid settler-company and settler-settler conflicts over the inevitably variable quality of individual blocks. At the same time, the company secured

a higher operating efficiency. Field visits revealed that the yields were high and that most settlers had improved their original houses and in addition, purchased satellite dishes and motorcycles.

Revitalisasi Perkebunan

After 2006, state policy makers introduced the Plantation Revitalization Scheme that initially targeted 1.5 million ha. Under this scheme, state-owned and private estates could obtain subsidies for replanting older smallholder plasma areas. Farmers would receive a state-subsidised loan but, under the benefit-sharing arrangements specified under this scheme, only 20 per cent of the income generated from their revitalized smallholding. Smallholders have been reluctant to take on this debt for such limited benefits (Kompas 2009; Molenaar et al. 2010). Interviews during 2008–09 also revealed that banks were requiring that nucleus estates provide security for loans for developing smallholder areas before offering lines of credit. Nucleus estates were also reluctant to take on such liabilities for loans that they argued were insufficient to subsidize the costs entailed in developing plasma areas. Consequently, the realisation of revitalisation schemes has been held back.[4]

'Partnership' Initiatives

When the NES program commenced, Indonesia was still in the highly centralised and authoritarian mode of the New Order government. Since 1999, this has been superseded, first by the newly important influence of local legislatures, and then, after 2001, by the decentralisation arrangements of *otonomi daerah*. The increase in influence of local politicians and the placing of most of the administrative and financial power in the hands of districts influenced socio-economic initiatives, not only through the nucleus estates but also through the district tree-crop extension agencies (*Dinas Perkebunan*). These changes have had benefits, but also imposed new constraints. The financial problems from the 1997 financial crisis additionally occasioned a slowing of the development of NES schemes; in fact, there has been no further government-sponsored expansion of these schemes since 2001. However, private plantation companies have continued to establish estates with their own resources, partly as a means of getting hold

of more land for their commercial operations. Under new government regulations, private companies for some time were still obliged to include smallholders in their operations.[5]

Under NES schemes, 70 per cent of the land had to be provided for smallholders. However, under the new "partnership" (*kemitraan*) model, plantations could negotiate land- and benefit-sharing arrangements directly with participating farmers, without the direct involvement of state agencies. Under this model, plantation companies could take control of up to 80 per cent of the development area, while smallholders are assured of only a 20 per cent share. This smallholder share could take the form of a "dividend" from the estate, amounting to the equivalent of the production benefit derived from the same area. Alternatively, the company might directly return 20 per cent of the established estate to smallholders for their own management. Either way, companies could now gain direct control of up to 80 per cent of the development area, rather than 30–40 per cent as in the past. In 2013, a new ministerial regulation marked a further move away from the NES model by allowing that the 20 per cent smallholder area could now be located outside the estate concession area. It also requires estates to provide shares to communities, increasing gradually to a 30 per cent community stake by the 15th year.[6] This further lessens direct smallholder involvement and control over palm oil production. Unless effective forms of governance are developed to provide accountability and transparency, this raises the possibility of further conflicts. At the same time, this arrangement does provide a strong incentive for large, capital-intensive companies to invest in new oil palm development.

With districts (*kabupaten*) gaining significant discretionary powers under decentralisation (*otonomi daerah*), the *kemitraan* policy has left space for a wide variety of initiatives. Consequently, the shape, significance, and application of the policy very much depend on the conditions and policies of each *kabupaten*. Here we discuss two *kabupaten* as examples of different local government arrangements, considering their impacts on rural landowners.[7]

(a) Kemitraan in Sanggau district, West Kalimantan

In 2008, research in Sanggau district found that district policy makers had sought to attract investors through pro-plantation policies, granting

12 new plantation licenses for an additional 240,000 ha of oil palm development. The *kabupaten* legislation obligated plantation developers to provide at least 20 per cent of the developed land for landowners. Under this provision, local landowners had the option of relinquishing 16,000 ha of village land in return for 4,000 ha of individually certified oil palm smallholdings. Farmers who chose to participate received a traditional payment for the loss of perennial crops, but no payment for the land itself. They also had to repay credit for infrastructure development and their share of investment and operational costs once the trees matured.

One Sanggau plantation studied had shifted to a *kemitraan* arrangement with 20 per cent of the land returned to smallholders. Here, the estate determined the price of FFB produced from plasma land, as provided for by national law, setting up a regional commission to ensure smallholders obtained a price that reflected the international market (Gillespie 2011). Each farmer, who had a plasma area of 1.56 ha with nine-year-old trees, obtained just IDR 296,913 per month, thus falling below the poverty line of IDR 750,000 per month set by the Asian Development Bank. To put this in perspective, we compared this to the amount a landowner would have received under the substantially more favourable PIR-Trans 70:30 land-sharing arrangement. From the same total area of land, farmers would have received IDR 1,039,196 per month. This indicates that Sanggau *kemitraan* schemes represent a step backwards for smallholders in terms of land ownership and economic well-being.

Another study of a Sanggau plantation that was developed under the dividend-based partnership model confirmed that the model performed poorly for landholders. The plantation company had taken over village land without compensation, smallholders were required to contribute their land for plantation development, but they had little role in farm management. The study found that they received dividends of just IDR 350,000 per month, well below the minimum wage (Li 2011).

(b) Kemitraan in Siak district, Riau

To contrast the implementation of *kemitraan* in Sanggau, which is broadly in line with similar estate areas in Indonesia, research was also undertaken in the Siak district in Riau. The Siak district government

had developed a scheme funded through the district budget and administered by the district administration. The district government decided not to develop a nucleus area for a plantation company due to the lack of available land. Rather, it developed 8,600 ha of smallholder oil palm plots for allocation to poor families. Each family would receive 2–3 ha of certified mature oil palm. Under the original plan, a district government enterprise (BUMD) would partner with Bogor Agricultural University (IPB) and the state-owned enterprise PTPN5 in a consortium to develop a palm oil processing factory and the downstream industry after the trees became mature in 2009.

The district created a cross-agency team to implement the scheme, carrying out a systematic survey of land availability and selecting the poorest villagers to participate in the scheme. Landowners interested in participating and who had more than 9 ha were obliged to release the extra land for poor landless farmers. The *bupati* set up a well-developed internal supervision system to prevent irregularities, attracting the most professional and committed civil servants through extra allowances and additional incentives for officials involved in administering the projects. The state-owned enterprise (PTPN5) functioned as a developer and IOPRI operated as the technical monitoring and supervisory agency. The local government utilized revenue generated from oil produced under a joint operation agreement with Pertamina, the national state-owned oil company, and the local government.

Despite the systematic land inventory system, in a small number of cases, village and sub-district actors sold land to outsiders, granted land to those without legitimate entitlements, or allocated land in an underhand fashion. Yet, the methodical process for the collection of data, for assessing land, and settling land entitlements ensured that by and large the policy was implemented as designed and significant conflicts were largely avoided. While the trees had yet to produce fruit at the time of the field research, it appeared likely that the scheme would reduce poverty for at least 4,000 families. This was because of highly subsidised credit (zero interest rate), the use of high-quality planting material, and the fact that farmers retained alternative income from "jungle rubber". However, the final outcome of the scheme will also be affected by the level of functioning of farmer cooperatives, the international price of palm oil, and the production levels achieved.

In comparing these examples, it is critical to understand how the design and implementation of the scheme, together with how it

fits with the agricultural systems and practices of workers and smallholders, cumulatively affect the welfare outcome for smallholders. While also benefiting the investor, more successful initiatives confer benefits upon local participants. In contrast, initiatives that sour relations with villagers, such as the second initiative in Sanggau described above, have led to the violent deaths of some company staff in conflicts with villagers. The lack of governance oversight in the Sanggau example has sown the seeds for extensive conflict, while the shift in land ownership has created new social and economic issues that will need to be addressed.

CONCLUSION

This review indicates the moderate success of the Indonesian government's NES/PIR programs and related local initiatives, while also highlighting difficulties in design and implementation. Under the earlier PIR and PIR-trans schemes, smallholders had greater direct control over their own plots and access to modern agronomic and harvesting practices, meaning that many smallholders could do well, though, given poor governance and other problems, this did not always occur in practice. However, following the Asian financial crisis, policy changed. With new "partnership models", and with decentralisation, local governments gained discretionary power to pursue a wide variety of initiatives: they could now work together with plantations companies to shape the terms of land- and benefit-sharing arrangements. While in Siak, the local government experimented with a pro-poor initiative, in most districts the local government lacked the budget, commitment, and the professional civil service required to proceed in this direction. In Sanggau and elsewhere, plantation interests have prevailed under arrangements that did not support smallholder inclusion.

With the general shift to joint venture and partnership models, oil palm companies have gained greater direct control over production. In many cases, landowners only received an equity share or an annual rental payment from the 20 per cent of land that was required to be returned to smallholders. Often, these benefit-sharing arrangements lacked transparency and were heavily weighted in favour of the plantation (McCarthy et al. 2012). Small-scale farmers were often reduced to becoming labourers on the plantation. The shift to large-scale plantation models meant greater productivity, but also that most of the

benefits accrued to plantation companies and to government in the form of taxes, while smallholders did comparatively poorly. As found in a similar range of models in Sarawak (Cramb and Ferraro 2012; Chapter 2), production shifted to large-scale models as productivity increased but smallholder returns declined. In contrast, the earlier model gave smallholders direct responsibility and control over production.

At the same time, those successfully integrated into earlier NES/PIR schemes benefited from the experience and the example of the nucleus estates. Many succeeded in establishing high-yielding individual oil palm smallholdings. Success under such programs secured increased output and major increases in the living standards of the participants. Further, there were considerable spread effects as these schemes stimulated surrounding smallholders to plant oil palm. Unfortunately, these programs were also associated with agrarian differentiation. In the absence of effective extension services or the widespread provision of better planting material, the majority of poor villagers continued to plant low-yielding trees and made little improvement in crop practices (especially fertiliser use), thus limiting the pro-poor spin-offs.

The more successful programs discussed here were "targeted micro-interventions" that systematically sought to address incomplete markets for credit and information. The NES/PIR schemes interestingly involved harnessing commercial expertise toward socio-economic goals. In many cases, private estates were managed more effectively than their public counterparts, adjusted to the new task and simultaneously increased commercial returns. The assistance to individual smallholders worked well on a restricted scale, and dovetailed effectively with the efforts of progressive farmers. The scarce technical skills and other resources committed to these programs secured estimated average returns to investment little different to those on commercial estates and which occurred within an expanding and competitive industry, and consequently distributed benefits to many more people. Indeed, over the last decade, Indonesian civil society actors have demanded greater equity in the distribution of the benefits oil palm development. The disastrous consequences for those estates that ignored the problem of distributional outcomes ensure that there is little alternative to organizing further state programs. These micro-interventions, with all their problems, contrast strikingly with the official Indonesian oil palm

"macro-interventions", notably with export taxes, which have been broadly unsuccessful (Marks, Larson, and Pomeroy 1998).

Recent interventions under the revitalisation program have had poor rates of success. In large part this program has provided insufficient credit and has been unable to adapt to conditions that require extra expenditure. As a consequence, replanting has yet to proceed on millions of hectares of oil palm. While independent community groups with sufficient capital have replanted, those without capital—the majority of smallholders—have yet to replant. These farmers rely on harvesting palms that are over 30 years old and declining in productivity.

At the same time, district governments have yet to develop effective policies to look after the interests of smallholders. For example, factory-gate prices are often lower than the prices that factories have agreed to pay smallholders in bi-weekly meetings coordinated by district governments.[8] In a few regions in North and West Sumatra, regional governments have provided more competitive markets. Nonetheless, in many cases, cooperatives have not been able to ensure that their members sell their fruit via the cooperative. As free-standing oil palm factories offer higher prices compared to nucleus estates, the effective functioning of cooperatives ceases after farmers repay their credit, with significant negative impacts on farmer welfare.

Given that oil palm presents such a lucrative investment opportunity, its expansion is continuing at a rapid pace. State planners have announced the ambition to double production by 2020. In this context, if NES schemes, local government schemes for the poor, and schemes to improve individual oil palm holdings are to be continued, they will require appropriate adjustments. For NES schemes, adequate capital needs to be provided, but with no further subsidisation of interest under the expectation of further rate declines. Policy makers can support smallholders by providing for the inter-cropping of oil palm during the immature phase, with additional guidance to settlers in cash cropping and marketing, and with cattle and other high-value enterprises being included. These changes can raise participant incomes during the critical early years. If training courses were to be provided to help nucleus estate staff, this could increase the transfer of technologies, perhaps deal more effectively with land transfers, and sustain good community relations. State policy makers could also support the

guidance and supervision of cooperatives. Interest and loan repayments can be made more flexible, with lower deductions during years of lower yields.

Measures are required by central and local government to overcome the procedural unfairness of the land acquisition process and debt- and benefit-sharing arrangements. Policies can help secure the rights, resources, and livelihoods of the rural poor, but may also contribute to the misappropriation and misuse of land and other resources. Clear regulatory guidelines need to be developed alongside lucid, publicly available and enforceable service standards for public agencies involved in plantation processes. Policy in this area needs to develop unambiguous safeguards to protect the land rights of affected communities, together with on-ground measures to ensure that smallholder interests are protected.

The approach to supporting individual smallholdings also requires adequate finance, which might be provided from the central government through a special fund, enabling less well-endowed provinces to parallel the efforts in Riau and North Sumatra. The emphasis of this much less expensive program can be placed on nurseries providing accredited high-yielding planting materials, whose price might be subsidized to stimulate adoption. Local extension centres can support this initiative by providing technical advice. It is tragic that over half the individual smallholder plantings are still being grown with inferior low-yielding trees, and it is crucial to curb this practice as it almost halves the output of crude palm oil over the succeeding 25 years.

The Indonesian socio-economic experiment with oil palm stands out globally as a major tree crop intervention. While, when compared with the earlier efforts of the Malaysian Federal Land Development Authority, Indonesia's efforts have been more constrained in terms of capital and skills, the use of nucleus estates in conjunction with the commercial sector ensured there was some scope for smallholder inclusion. To be sure, similar efforts in Malaysia, Thailand, and India proved more successful in extending high-yielding varieties to individual smallholdings. Yet, Indonesia has demonstrated that reasonable results can be secured on a smaller budget. Certainly the situation in areas that have been improved by official initiatives in all countries engaging in official interventions is far better than under laissez-faire, and the disastrous effects of withdrawing the admittedly flawed previous initiatives in West Africa are demonstrated by the almost

complete absence of further improvement in the smallholder sector there. The role of the state and other policy actors remains critical to help to secure socio-economic improvement through the cultivation of tree crops. The challenge remains that of making these initiatives even more effective.

NOTES

1. Interview with Lukman Fadli, head of the IOPRI mobile program, February 2014.
2. A current IOPRI project, Integrasi Kelapa Sawit dengan Ternak Sapi (Integration of Oil Palm with Cattle), is utilising oil palm leaves and factory waste for feeding cattle, while cattle waste is used for making biogas and slurry for making compost. This project is said to be successful at the experimental scale and is very promising for wider implementation. Interview with Lukman Fadly, Feb. 2014.
3. Survey in 2003 in PT Agrisinal in North Bengkulu. Report to PT Agro Muko—Social Mapping and Identification of Strategic Issues in Communities surrounding PT Agro Muko, Kabupaten Mukomuko.
4. A related problem was the limited availability of credit for revitalisation. Revitalisation only proceeded on a small scale with respect to replanting NES/PIR plantations, while independent community plantations remained too expensive.
5. UU No. 18/2004 and Ministry of Agriculture Regulation No. 357/Kpts/HK/350/2002.
6. Peraturan Menteri Pertanian Republik Indonesia Nomor 98/Permentan/Ot.140/9/2013 Tentang Pedoman Perizinan Usaha Perkebunan.
7. These cases are further discussed in Zen, McCarthy and Gillespie (2008); McCarthy, Gillespie and Zen (2012); and Gillespie (2010).
8. *See* Permentan No. 395/2005 (tentang pedoman penetapan harga pembelian tandan buah segar kelapa sawit produksi pekebun).

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CHAPTER 4

Agribusiness, Agrarian Change, and the Fate of Oil Palm Smallholders in Jambi[1]

John F. McCarthy and Zahari Zen

> We join spokes together in a wheel, but it is the center hole that makes the wagon move.
>
> —Lao Tzu, *Tao Te Ching*

The "new agriculture" agenda promoted by the *World Development Report 2008* suggests that "dynamic and efficient agribusiness spurs agricultural growth", positing that "a strong link between agribusiness and smallholders can reduce rural poverty" (World Bank 2007: 135–7). In contrast, NGOs and social movements provide a less optimistic perspective, pointing to the problems associated with an agribusiness-driven agrarian future. From this viewpoint integration into an agribusiness-dominated "agriculture for development" will reinforce "the path dependence of an exclusionary corporate agriculture" (McMichael 2009: 243).[2] This controversy parallels the emergent debate over biofuels. On the one hand, biofuels are seen to "provide a unique and vast market to link remote, generally uneconomic and degraded areas, where many of the world's poorest people live, to global markets" (Siregar and Sugino 2008: 2). On the other hand, market demand for agrofuels will create new social vulnerabilities, increasing pressure and competition for land, and further weakening the relative position and food security of the most vulnerable rural

actors in developing contexts. According to this view, as they face an emerging agriculture involving technological innovation and capital-intensive investment, vulnerable rural actors are disadvantaged in terms of access to power and representation in increasingly integrated global market chains (Mol 2007).

The study of the Indonesia-Malaysia oil palm complex provides excellent views regarding this area of controversy. Indeed, analysing the processes of agrarian change associated with oil palm offers an opportunity to pursue linked questions regarding the impact of agribusiness-driven agriculture, the fate of smallholders in contemporary agrarian transitions, and the likely impact of increased demand for biofuels on agrarian structures.

Oil palm is the most significant boom crop in Southeast Asia, a crop associated with a large-scale agrarian transformation (Hall 2009). The centre of Indonesian oil palm production is the island of Sumatra, with around 70 per cent of the country's planted area (Potter 2008). Within Sumatra, Jambi province is the key development frontier. In 2009, there were about 452,960 ha of established oil palm, with a further 448,899 ha recently planted and another 690,656 ha subject to plantation permits but yet to be cultivated.[3]

For Indonesia, oil palm represents a vast opportunity. Indonesian palm oil has the lowest cost of production among vegetable oils. With its comparative advantage in terms of labour and land costs, Indonesian policy makers have long identified oil palm as a key vehicle for economic growth. Now the largest global producer of palm oil, Indonesia has committed to becoming the largest biodiesel producer.

This chapter sets out to study the processes of agrarian change associated with oil palm. The research aimed to understand both "the terms upon which people are incorporated and integrated" into globalized oil palm markets as well as the "processes of adverse incorporation and/or social exclusion that trap people in poverty" (Hickey and du Toit 2007: 1). This entails considering how social structures enable or constrain the possibility for individual agency, looking at how "low asset poverty traps, low incomes and vulnerabilities are constructed…through political, social and cultural processes" (da Corta 2008: 7).

To this end, the chapter considers a number of interrelated questions. What are the characteristic trajectories of agrarian change associated with oil palm expansion? What causal processes lead to the key

distributional outcomes that we can identify, and how is this related to particular processes of differentiation? We examine these questions through a case study of villages located within the oil palm district of Jambi Sejati in the province of Jambi in eastern Sumatra. The objective then is to comprehend how social processes determine patterns of distribution—how institutional contexts work to empower "ups" over "downs" (Schlosberg 2004). The chapter focuses on the social processes and relations that work through institutional frameworks to produce particular distributional patterns. The analysis bears in mind that the conditions that constrain or enable people to do particular things are "produced by the confluence of a multitude of actions and practices" (Young 1990: 25).

The research followed a twofold strategy. First, we sought to investigate the high variability in outcomes by analysing how similar underlying processes led to contrasting outcomes in neighbouring locations. To understand this spatial variation, the research explicitly sought out contrasting outcomes. This involved analysing how micro-processes—linked to wider dynamics—affected the "distribution of income and risk" among rural actors in each of these contrasting locations (Sikor and Vi 2005). Initially, the research investigated three villages which, although subject to the same oil palm scheme, experienced divergent outcomes. Outcomes in these villages were then compared with a fourth village, where oil palm had been developed without a state-supported scheme, following the independent spread of commodity markets.

Second, the research sought to understand outcomes in terms of the configuration of common property institutions and agrarian structures, following the shift in social relations as patterns of access to land resources and commodity markets changed. This involved the pursuit of a temporal axis of explanation, seeking to follow how shifting policy settings, schemes and institutional contexts linked to changing processes of agrarian change. This was done by explicitly connecting agrarian outcomes to particular policy settings. To this end, the chapter analyses the evolution of policy and practice in three periods: the state developmental New Order, the transitional (KKPA), and the post-1998 "laissez-faire" or *Reformasi* periods—each marking a point of evolution in state land development schemes and state-legal frameworks concerning modes of including smallholders in the political economy of oil palm.[4]

Research was undertaken intermittently in Jambi since 2004, and more intensively over 2008–09, during the laissez-faire period (Figure 4.1). Interviews were conducted with local actors—including participants in the original oil palm scheme, land brokers, entrepreneurs, local officials, and in-migrants—to analyse the diversity of modes of engaging with the oil palm frontier that gives rise to emergent distributional outcomes. This round of qualitative research was followed by a sample survey in the fourth (non-scheme) village subject to the independent spread of commodity markets. Here, the research utilized a stratified sample to examine distributional outcomes in comparison with the second successful scheme village.

Contrary to the rather simplifying narratives of either the policy advocates of oil palm-driven economic development or their critics in NGOs and social movements, this chapter argues that the trajectories of change associated with oil palm expansion are highly variable. While seeking to understand the mechanisms at work in agrarian change, the analytical strategy here is to locate the way "localised livelihood strategies are enabled or constrained by economic, social and political relations" that vary over time and space (Hickey and du Toit 2007: 4). These changing relations are shaped by the appearance (or absence) of smallholder development schemes; their design and how

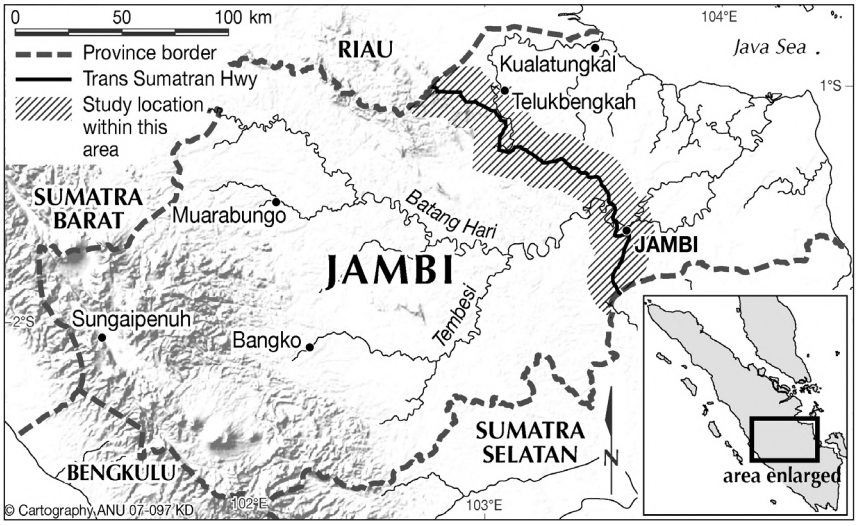

Figure 4.1. Research area in Jambi province

they are rolled out, including the role the state plays at critical points; the degree of villager control over village institutions and processes; the way individuals take up oil palm in an already differentiated agrarian landscape, and how this works with (or against) existing livelihood practices and village structures; how the spatial situation and structural advantages or disadvantages of villagers affects their ability to respond; and the workings of land tenure systems and informal land markets.

The chapter argues for the need to go "beyond simplistic dualist models" to grasp the simultaneous interaction of processes leading to inclusion, exclusion, and adverse incorporation. While "agricultural intensification and integration into global markers may heighten profits and productivity for some", such changes may squeeze many off the land, creating "wealth for some by generating and perpetuating poverty for others" (Hickey and du Toit 2007: 15). However, as the concept of "adverse incorporation" suggests, processes of change are more complex than simplifying narratives of inclusion/exclusion suggest. Actors face complex situations where few are ever simply excluded or included. The key insight here is that "poverty and disadvantage themselves can often flow not from exclusion, but from inclusion on disadvantageous terms" (Hickey and du Toit 2007: 2).

The chapter advances five arguments. First, it argues that the trajectories of agrarian change are highly variable, depending upon how changing livelihood strategies are enabled or constrained by economic, social and political relations that vary over time and space. Second, the study distinguishes exogenous processes of agribusiness expansion from endogenous commodity market expansion, arguing that each raises its own advantages and risks for smallholders, leading to distinct trajectories of agrarian change. Third, it finds that the commodity-specific nature of oil palm has important implications for agrarian outcomes. As successive policy interventions have worked with oil palm in different ways, they have cumulatively affected the opportunities and constraints faced by smallholders, thereby shaping the space where processes of agrarian change have occurred. Fourth, by comparing earlier state-agribusiness modes of engaging smallholders with patterns of agrarian change following the liberalisation of markets for oil palm in Indonesia, the chapter argues that vulnerable landowners may be even more exposed to the risk of adverse incorporation under the later laissez-faire scenario. Finally, in contrast to simplistic

narratives of inclusion/exclusion, the chapter concludes that the effects of oil palm on the livelihoods of rural households very much depend on the terms under which smallholders are incorporated into the oil palm economy.

To date, NGOs and social movements have focused their campaigns on the exogenous process of agribusiness-driven plantation expansion (Colchester et al. 2006).[5] To be sure, agribusiness firms did initially propel oil palm expansion. However, as described in Chapter 3, over recent years, the smallholder sector has become ever more salient. It is now estimated that 3.5 million smallholders grow oil palm in Indonesia, cultivating approximately 40 per cent of the area under this crop. At the same time, a body of scholarly literature has analysed the role of spreading commodity relations in the agrarian transformation of formerly remote areas of Southeast Asia. The focus here has particularly been on the endogenous development of commodity relations linked to boom crops such as cocoa and coffee (Li 2002; Sikor and Vu 2005).

This chapter argues that we need to combine these two axes of analysis. In the oil palm case, we can usefully distinguish between the exogenously driven processes of agribusiness oil palm expansion and subsequent developments derived from a more endogenously driven expansion of independent commodity producers. The former processes draw their momentum from the injection of agribusiness inputs into formerly remote rural settings leading to a highly uneven process of incorporation/exclusion from oil palm schemes and the global oil palm political economy. In contrast, the latter phenomenon proceeds as individuals with the capacity to do so embrace the new opportunities offered by expanding commodity markets for oil palm. Simultaneously, due to the disadvantaged terms under which they operate within the oil palm boom, large numbers of local landholders remain poor, with many becoming landless. These two sets of processes have clearly changed social relations, constraining and/or enabling particular livelihood strategies, while co-producing both wealth and poverty (Costa 2008).

A key argument here is that each of these processes involves a distinct mode of coordinating agriculture—through the contract form and through a more open market respectively. As in each case, smallholders relate to the oil palm value chain in distinct ways, each presenting its own distinct opportunities and constraints for smallholder

engagement with the oil palm boom. In the first process, farmer inclusion in the boom is mediated through smallholder schemes. As the scheme rolls out, farmers face the workings of cooperatives and village-level processes, including those affecting the division and allocation of scheme lands and contractual production and credit relations with the plantation core. The way the terms of the scheme affect the conditions under which participants benefit, together with the particularities of how this process pans out in each case, determines who remains enrolled in the scheme, who sells up their scheme entitlements, and who becomes a provider of cheap labour. In the second process, when farmers develop oil palm plots independently and market their fruit directly to free-standing buyers and mills, they face the difficulty of obtaining access to capital, planting material, fertilisers, and marketing networks without outside tutelage. Those who are unable to access the assets required to enter oil palm production on favourable terms—either through scheme processes or in the market—are included on adverse terms, remain as low-productivity farmers, are forced to sell up land, and/or become casual wage labourers. As different categories of actors respond to these opportunities and constraints in distinct ways, we can observe processes of agrarian differentiation.

Thus, farmers engage with oil palm under distinctly different terms and through different processes with each of these modes of coordinating agriculture. As a consequence, each is associated with "different distributions of income and risk" among the actors involved, leading to distinct trajectories of agrarian change (Sikor and Vi 2005: 409). A key theme in the agrarian transition to be described below is how the commodity-specific characteristics of oil palm create significant "thresholds of inclusion and exclusion" for smallholders (Fortin 2005). Put simply, oil palm is a rich farmer's crop that, to be cultivated successfully, requires expensive inputs. This means that the way a policy framework supports or constrains smallholder inclusion dramatically affects rural settings.

Consequently, the manner by which successive policy interventions articulate with the commodity-specific characteristics of oil palm shapes the space where agrarian processes occur. The state-led development period (during the New Order) injected credit, technical assistance, and agribusiness inputs into formerly remote rural settings. In a highly uneven way, this public-private support for including smallholders provided a successful instrument for poverty alleviation

(Susila 2004; Zen, Barlow and Gondowarsito 2005; Chapter 3). Paradoxically, it also created an incipient differentiating process, helping to create a class of farmers who—together with existing rural elites—were able to utilise emerging market opportunities. In other words, state policies that introduced oil palm production offered increased opportunities of value addition for some, without reducing the barriers to access faced by many (Hickey and du Toit 2007). A decade later, a different policy framework led to the liberalisation of plantation laws, the withdrawal of effective state intervention on behalf of smallholders in this particular district, and the spread of independent commodity markets for oil palm. This created a different space for agrarian change. Under these neoliberal conditions, agrarian differentiation has proceeded rapidly. With the enclosure of large areas of land for oil palm plantations and timber concessions, Melayu farmers have moved away from the old portfolio of livelihood options that entailed the integration of agriculture for their own consumption with cash crop production for international markets. Following the extension of smallholder oil palm, large numbers of villagers remain as wage labourers and/or poor oil palm or rubber farmers, dependent on the oil palm economy and yet marginalized within it (Hickey and du Toit 2007: 17).

Consequently, as the wider literature suggests, the state's role remained critical (World Bank 2007; Hickey and du Toit 2007). This is most apparent in the workings of formal, direct instrumental interventions and policies associated with smallholder development schemes and plantation expansion. However, it also occurs through the inadvertent spaces and gaps created by successive waves of explicit and implicit policies that cumulatively create "the centre hole that makes the wagon move". For instance, as we will later see, poorly functioning land institutions and state legal frameworks provide for the "fuzzy", insecure tenurial rights in village common lands, shaping the workings of "informal" land markets and the commodification of village common lands. Further, although the state has effectively withdrawn in the neoliberal period, informally, the role of local state-based actors remains pivotal to agrarian differentiation, the eclipse of customary entitlements, and the permanent alienation of large areas of local land.

Much discussion has focused on either the positive or the negative implications of agribusiness engagement in the production of oil palm.

While agribusiness expansion often raises key questions of sustainability and equity and is associated with conflict and environmental crisis (Potter and Lee 1998; Colchester et al. 2006), it may also, in a highly uneven way, provide an instrument for poverty alleviation (Rist, Feintrenie and Levang 2010). Yet, in focusing on agribusiness, the discussion has neglected how the spread of commodity markets for oil palm—now linked to global demand for biofuels and the liberalisation of marketing channels in Indonesia—could be at least as big a threat to vulnerable landowners. This is principally because, in the absence of state-agribusiness modes of engaging smallholders, poor rural people may be even less able to overcome barriers to inclusion in agrofuel value chains (at least for oil palm).[6]

Narratives of inclusion/exclusion—such as those advanced by state policy makers and opposed by NGOs and social movements—might propose that the solution to rural poverty lies in incorporation into the oil palm economy. Yet this research suggests that individuals who find themselves incorporated into oil palm under unfavourable conditions will not only remain poor, but may even face deeper poverty. The impoverished are those who lose their land and their former economic base without being incorporated into the new economy on advantageous terms. Hence, the likelihood of inclusion/exclusion or adverse incorporation depends on the terms under which smallholders engage with oil palm: how oil palm is introduced, how it is taken up, and how local institutional contexts and social relations shape the way subsequent changes play out.

The following discussion is divided into sections that link policy changes with the trajectory of change in state-agribusiness and smallholder engagement with oil palm in the study area. It proceeds in three sections, considering the state developmental period, the transitional (KKPA) period, and the recent laissez-faire period, before drawing conclusions in a final section.

EMERGENCE OF THE STATE AGRIBUSINESS MODEL: NES/PIR

It is often observed that the leader of Indonesia's authoritarian New Order regime (1966–98) Suharto had a strategic interest in agriculture. In part, this was based on recognition that "increasing rural well-being

was likely to be an effective antidote to agrarian radicalism" (Rock 2001: 60). It also encompassed an interest in national integration that embraced moving rural poor from Java to the outer islands (Levang 2003). Hence, during the New Order period, the state pursued a developmental agenda, combining the provision of political and macro-economic stability with the financing of infrastructure and the provision of subsidies derived from oil revenues, along with direct interventions in agriculture that utilised state agencies in the coordination of service provision and agricultural extension. Agricultural policy oversaw increased returns to land and capital by supporting the "upgrading" of the plantation sector into oil palm by enabling access to land and capital and providing other institutional support (Humphrey and Schmitz 2000). In 1996, the Suharto government had "pledged to overtake Malaysia as the world's largest oil palm producer by doubling the area for palm oil production to 5.5 million ha by the year 2000" (Casson 2000: 8); by 2008, Indonesia had indeed emerged as the world's leading palm oil producer.

The state-agribusiness driven process of agrarian change that has transformed large areas of rural Indonesia emerged gradually and evolved over time. Initially, the arrival of oil palm in the study district was associated with direct state investments via state-owned companies. After various other types of scheme, this was later followed up by the phase of the "nucleus estate-transmigration programme" (known by its Indonesian acronym PIR-Trans) where the state supported large-scale conglomerate firms, typically led by Sino-Indonesians close to the politico-bureaucrats at the apex of the regime.[7] As elsewhere in the developing world, such nucleus estate and smallholder (NES) schemes amounted to "market intensification, via agribusiness, aided by the state" (McMichael 2009: 236). The state facilitated access to forest and village lands, infrastructure development, and credit at concessional rates for plantation development. The dominant policy settings required "a 20 per cent/80 per cent mix between estate area and smallholder area", providing "financing for smallholder plantings, initial living expenses and housing", while requiring that "the nucleus estate was responsible for extension services, for collecting and for processing the fruit bunches" (Larson 1996: 5). These nucleus estate schemes involved the permanent alienation of local land for the development of the plantation "core" under a state-granted "land use permit" over

Figure 4.2. A poorly maintained plasma smallholding in Sumatra (Photo: Zahari Zen)

what was considered "state land", together with the provision of smallholder "plasma" (Figure 4.2). The latter typically consisted of 2 ha of oil palm for a smallholder family and a small parcel of land for food crops located at each house site. The smallholder would obtain fully privatized rights over their smallholding upon settlement of the oil palm development loan.

These PIR-Trans schemes (during 1986–94) were clearly derived from contract farming models that the World Bank and other actors had already trialled in Africa and elsewhere. They also reflected a wider New Order strategy of building "mutually advantageous mutual hostage" relationships with big business, where the government offered favours in exchange for various forms of enticement. These mutual hostage relationships tended to be "informal and particularistic and they required the creation of a bifurcated state—one enabling political leaders to simultaneously pursue developmental and domestic political objectives" (Rock 2008: 60). In the case of oil palm, the state provided access to "free land" and concessionary credit in exchange for

submission to a particular agribusiness model. That is, the state demanded the inclusion of smallholders in the plantation peripheries as part of the bargain. By incorporating transmigrants, these schemes also provided a readily disciplined labour force.[8]

In Jambi's oil palm districts, as elsewhere, land and forest laws facilitated this by subjecting the lands of local populations—in this case the Melayu (the ethnic Malay indigenous to Jambi)—to the state's "power of control" over natural resources set out in the Constitution, leaving these lands "up for the taking" (Wallace 2008: 203). This included lands under extensive land uses, subject to "customary" resource regimes and lacking state registered land certification. This effectively allowed for a process of "primitive accumulation by enclosure" (Nevins and Peluso 2008). The intensive wave of timber and plantation concessions created public-private pressure on the local domain that eclipsed the extensive, portfolio approach to livelihood reproduction and ultimately culminated in the wholesale transformation of these landscapes.[9]

In this district, a large NES-PIR scheme began in 1988–89. Interviews during 2009 with successful Javanese transmigrants revealed that, during the first years, many remained extremely uncertain of their prospects under the scheme and faced considerable hardship. The Ministry of Transmigration provided participants with a subsistence allocation (*jatah*) for one year. Thereafter, farmers waited several years for the oil palm to mature, during which time they received a wage of IDR 1,200 per day (at the time, about USD 0.60) for casual labouring work on the estate. As this was well below the poverty line, one Javanese transmigrant estimated that about 50 per cent of the Javanese settlers sold up their plasma entitlements and returned to Java. Further, even after productive oil palm plots were given over to the participants, farmers continued to receive low incomes, with 30 per cent of the oil palm revenue withheld for credit repayments during the early mature period.[10]

In response to earlier transmigration schemes, which had failed to include the local population, by this time, the PIR-Trans scheme adopted the policy that 20 per cent of farmers within the schemes should be Melayu landowners. In this case, local people were invited to participate in mixed settlements (*transmigrasi sisipan*). However, the policy was less than successful. In 2008, a farmer from a Melayu rubber village described how ten farmers from his village obtained

PIR-Trans plots, but only two stayed on until the oil palm became highly productive; the rest sold up and left. He had stayed on because he learnt from migrants from other areas of the superior livelihood opportunities offered by fully mature oil palm. Another successful Melayu farmer in the transmigration settlement from a more remote village described how he was the only farmer from his village to hold on as a "plasma farmer".

Melayu farmers calculated that there were significant risks in taking up uncertain oil palm livelihoods at this time. While they had existing livelihoods outside the transmigration settlements, particularly from combining rubber cultivation with dryland rice cultivation, participants in the PIR-Trans scheme were reduced to poorly paid day labourers on the oil palm estates until their oil palm smallholdings matured. The government had instructed participating Melayu to renounce their swidden practices: they were told that they must "cultivate in one place" (*harus tetap*). As another farmer noted, the transmigration settlements were in the forest, and no one wanted to move out of their old villages and livelihoods into these remote communities. Consequently, much of the Melayu allocation was not taken up: "the name of the person might be there, but the entitlement (*jatah*) was sold to someone else". In the meantime, village elites, sub-district officials, in-migrant traders, and teachers who were aware of the highly productive nature of oil palm smallholdings cheaply bought the unfilled local entitlements. This left Melayu farmers dependent on a low productivity activity that involved traditional rubber technology, unselected seedlings, low fertiliser inputs, and high-density plots without effective soil conservation or plant maintenance (Joshi et al. 2002). This was to have significant implications when rubber prices declined in the 1990s (Cramb et al. 2009), particularly as the Melayu here were not cultivating high-yielding clonal rubber varieties. They thus felt disadvantaged when the oil palm boom later took off.[11]

TRANSITIONAL PERIOD: KKPA

From the early 1990s, the government changed policies, seeking to encourage private sector initiatives, facilitate foreign direct investment, and accelerate estate crop development. Larson's (1996) World Bank report had criticised ongoing state support for smallholder oil palm schemes, advocating that the state abrogate its direct subsidising role

and leave oil palm development to the market. Yet, while the state seemed to pass up this advice for some time, increasing pressures on the national state budget as well as continued donor advocacy of a more direct social-private partnership model finally brought about a policy shift. Accordingly, the next phase in the development of oil palm schemes marked a milestone in an ongoing trend towards state withdrawal. The next generation of schemes over 1995–98, known as the "Primary Cooperative Credit for Members" (*Koperasi Kredit Primer untuk Anggota* or KKPA), involved a more direct private-community "partnership" model, with the plantation company now taking nearly all responsibility for the project, working directly with participating farmers in sorting out land problems, providing training and extension services for plasma cooperatives, and establishing infrastructure without direct state engagement. In effect, the state had moved into an oversight or "steering" mode—setting the legal and institutional conditions for plantation development while still providing incentives through concessional credit arrangements.

The KKPA scheme also focused on integrating local smallholders, such as the majority of the Melayu in Jambi, who had not participated in the previous scheme. The KKPA scheme continued the earlier NES/PIR approach, with smallholders obtaining plots of 1–5 ha, depending on their contribution of land to the scheme, with a minimum of 80 per cent of the land provided to smallholders (Larson, 1996). Given the increasingly difficult challenges investors now faced —obtaining land close to developed infrastructure in the face of increasing land disputes with landholders—the KKPA model represented a clever strategy to access land while (hopefully) creating more acquiescent landowners. Under this scheme, a developer would establish a separate company to "partner" a cooperative of smallholders.[12] While the developer provided the development capital, the smallholder cooperative would provide the land. The Melayu landholders would exchange land in return for integration into a highly profitable agri-food chain that promised enhanced income security. The state underwrote the scheme by providing the company with a loan at concessional rates from an "executing bank" supported by the Bank of Indonesia.

To explore the processes of inclusion and adverse incorporation at work under the KKPA policy, fieldwork was conducted in a KKPA scheme encompassing 4,000 ha within the common and private lands of three villages that a national oil palm company had begun

to develop in 1997. Over time, successive booms in oil palm prices while rubber prices were falling had a "ratchet effect", cumulatively inducing farmers to move away from reliance on a livelihood system dominated by unselected ("jungle") rubber (Cramb et al. 2009). This shift first became obvious at the time of the Asian financial crisis of 1997–99 that culminated in the collapse of the Suharto regime. The success of the PIR-Trans participants had demonstrated the value of oil palm. As a village head interviewed in 2008 noted, "there was a common belief that [oil palm] was a crop for big companies, that the smallholder could not plant it. But now a perception [has] emerged that the community actually can plant oil palm".[13] During the crisis, as one farmer observed, the price of oil palm fresh fruit bunches (FFB) tripled: while rubber farmers struggled to afford rice and were selling land just to survive, the previously impoverished Javanese transmigrants in the PIR-Trans schemes were buying motorbikes. The superior price of oil palm compared with rubber at this time appears to have broken the faith of Melayu farmers in the rubber economy (Penot and Ruf 2001). As research from this period revealed, returns to land and labour from oil palm "compare favourably with other land use activities including rubber" (Papenfus 2002: 13). Further, as oil palm only needed to be harvested twice a month, farmers found that oil palm cultivation could occur alongside other activities within a wider livelihood portfolio. As oil palm required significant labour inputs at particular moments in its cultivation cycle, significant employment opportunities materialised in successful oil palm villages, albeit mostly on the poor terms provided to casual wage labourers. In other words, successful oil palm allowed for a continuing diversification of occupations and livelihoods—including the supplementation of household income from labour opportunities in surrounding oil palm smallholdings.[14] As we will see, integration into the oil palm economy also provided successful producers with the capacity to accumulate land.

In the following sections, we compare three villages, each of which had distinct processes of engagement with the oil palm boom and correspondingly distinct outcomes. The objective here is to understand why, although all three villages hosted the same KKPA scheme, the first village emerged as the most prosperous Melayu village in the sub-district ("the Brunei of the sub-district", as one villager noted), the second village experienced more mixed outcomes, while the third

remained what state planners identified as a "left-behind village" (*desa tertinggal*).[15]

Types of Farmers in the Study Villages

Before proceeding, however, it is important to understand the agrarian political economy and social class profile characteristic of the villages in this area. Historically, according to older residents, these villages tended to have a relatively uniform class profile. Given the extensive land available, the majority of villagers combined the cultivation of small (typically 2 ha) plots of unselected rubber for generating cash income with the shifting cultivation of dryland rice for their own consumption, using swidden fields accessed under customary arrangements from secondary forest and the "village commons".[16] By planting swidden areas with rubber trees after harvesting the rice, farmers also extended their individual land entitlements. As it was beyond the capacity of a rubber farmer to tap much more than about 2 ha each day, each landowner accumulated significant areas of unselected rubber that were left relatively unused—the "sleeping land" referred to below. Each village also had an "elite" of several families—usually local officials, rubber traders, shop-owners, and village headmen—who used their relative economic and social power to buy up rubber lands, which were worked by other villagers under a sharecropping (*bagi-hasil*) arrangement.

In June 2009, a stratified random sample survey was conducted among a sample of 53 farmers, labourers, and landholders across two villages to assess village class profiles and distributional outcomes associated with the transition to oil palm. The two villages surveyed were the second village mentioned above and the fourth (non-KKPA) village described below. Four classes or types of farmer were identified—prosperous farmers, progressive farmers, poor farmers, and labourers (Tables 4.1 and 4.2).

(a) Prosperous farmers. For the purposes of the survey, we considered "prosperous farmers" (*petani makmur*) to be those with more than two plots (*kapling*) of mature oil palm. By 2009, "prosperous farmers" were cultivating large areas, with average landholdings of 20 ha (Table 4.1). The survey revealed that this category of farmer averaged net incomes of IDR 211 million (USD 22,000) per year (Table 4.2).[17]

Table 4.1. Average land holding by farmer classification (ha) (n = 43)

Crop	*Prosperous farmers*	*Progressive farmers*	*Poor farmers*
		– mean area (ha) –	
Mature unselected rubber	1.2	0.5	1.0
Immature unselected rubber	0	0.4	0
Immature high-yielding rubber	0	0.3	0
TOTAL RUBBER	1.2	1.2	1.0
Unselected mature oil palm	8.3	1.4	1.1
Unselected immature oil palm	2.0	1.7	1.4
High-yielding mature oil palm	5.7	1.7	0
High-yielding immature oil palm	1.0	0	0
TOTAL OIL PALM	17.0	4.8	2.5
Total tree crops	18.2	6.0	3.5

Table 4.2. Average income by source and farmer classification ('000 rupiah) (n = 53)

Income source	*Prosperous farmers*	*Progressive farmers*	*Poor farmers*	*Labourers/ waiting farmers*
		– '000 rupiah –		
Unselected rubber	16,950	6,480	2,335	0
Unselected oil palm	147,732	11,292	7,912	0
High-yielding oil palm	237,525	34,584	0	0
Farm income	298,959	52,356	12,772	0
Off-farm income	25,304	23,352	11,942	15,385
Total income	726,470	75,708	23,863	15,385
Household expenses*	597,963	58,709	19,008	10,239
Surplus (income less expenses)	128,507	16,999	4,855	5,146

* Including farm expenditure and consumption expenditure (e.g., food, clothing, social, and zakat).

Many "prosperous farmers" had established their first oil palm in the early 1990s with an original 2 ha *kapling* obtained in the PIR-Trans scheme. These "prosperous farmers" had used their surplus from oil palm production together with loans (using certificates of land ownership for their paid-off plasma areas) for further rapid oil palm expansion.

This category also included high-level officials, intermediate rubber or oil palm traders, people with transport and contracting businesses outside the village, together with those who had become commercial farmers by opening quite extensive areas of oil palm with their own capital. Members of the traditional village elite had previously accumulated rubber lands through crisis sales by poorer villagers, obtained PIR-Trans entitlements in the early 1990s, and subsequently expanded these over time. Many had informally bought up PIR-Trans *kapling* cheaply from transmigrants who were unable to hold on during the difficult immature period. These prosperous farmers accumulated large areas of oil palm from the 1990s onwards as they purchased rubber land sold by Melayu farmers (*see* below). They now hired wage labour from within the village and among Javanese in-migrants. Due to the difficulty of obtaining superior quality seedlings and the prevalence of illegal trading in unselected seedlings, these farmers invested in inferior planting material, indicating that access to superior quality oil palm seedlings does not depend solely on income. Due to their ability to invest in fertilisers and labour, however, their income from the inferior quality oil palm gardens was still significant (43 per cent of total income), despite the fact that these plots were so much less productive. Even where they retained areas of rubber, they only obtained five per cent of their income from unselected ("jungle") rubber. (As smallholder rubber schemes did not penetrate into this area, there was very little high-yielding rubber.) While their off-farm income was less significant in percentage terms (only 16 per cent), it was quite large in monetary terms (on average IDR 55 million), indicating that these "prosperous farmers" were either entrepreneurs or officials who had moved into oil palm, or successful farmers who had diversified out of farming.

(b) Progressive farmers. The survey classified as "progressive farmers" (*petani maju*) those who had typically one *kapling* of high-yielding oil palm (Figure 4.3). These were primarily farmers who had obtained

Figure 4.3. Sumatran smallholder gathering fresh fruit bunches (Photo: Zahari Zen)

land in the KKPA scheme (or even in the earlier PIR-Trans scheme), many of whom had subsequently accumulated a second *kapling*. They averaged 6 ha in total, including some rubber (Table 4.1). The survey revealed that "progressive farmers" averaged a total annual income of IDR 75,708,000 (about USD 8,000), from which they could save a modest surplus (Table 4.2). On average, these "progressive farmers" earned a third of their incomes from off-farm activities, including working as small-scale traders and in low-level official posts, for example, in the local government or in oil palm cooperatives. Many of these farmers retained significant areas of unselected rubber that were cultivated by others under share-cropping (*bagi-hasil*) arrangements.

These individuals had access to only modest amounts of capital. Due to their asset base, they were unable to access commercial loans, at least until they had paid off their credit and obtained certified landholdings that could be used as collateral. This meant that they were only able to expand slowly. They used their modest surplus from oil palm to buy up unselected "jungle" rubber land or to gradually rework existing areas of rubber land to further expand their oil palm. On average this class of farmer held about 9 ha of land, including 6 ha of productive tree crops (Table 4.1) and 3 ha of "sleeping land",

available for further expansion. At a later stage, "progressive farmers" with mature smallholdings, after accumulating a second *kapling*, might borrow capital and, since they have a good understanding of oil palm technology, shift up into the class of "prosperous farmers".

(c) Poor farmers. The majority of Melayu landholders had not obtained high-yielding oil palm under the PIR-Trans and KKPA schemes. These farmers were left dependent on a livelihood that typically combined the tapping of small areas of local rubber, wage labour in surrounding areas, and the cultivation of new areas of oil palm. Despite repeated requests, the government has yet to provide programs to supply high-yielding planting material (which can be three times more productive) to these poor households. Consequently, poor farmers planted low-quality planting material and cultivated without applying agricultural inputs. On average, these farmers earned only IDR 24 million per year (USD 2,500)—30 per cent below the World Bank poverty line.

Labour opportunities were significant at particular moments in the oil palm production cycle. This included pruning (*mengimas*, at IDR 250,000 per ha), weeding (*piringan*, at IDR 120,000 per ha), applying fertiliser (at IDR 10,000 per sack), and harvesting (IDR 100,000 per ton FFB), these all being contract (*borongan*) rates. Working as "casual day labourers" (*buruh harian lepas*, BHL), poor Melayu obtained a small salary on the landholdings of more prosperous villagers or on neighbouring estates, typically IDR 35,000 per day. Many opportunistically carried out other work that paid better, for instance mining sand and stones in the river when the water level was low. These farmers earned about half their income from off-farm work in this way.

Poor farmers tended to be trapped between their on-farm activities and work as labourers, with little time to invest in improving their plots. Further, in the absence of effective extension services from the *Dinas Perkebunan*, they lacked knowledge and skills in oil palm technology. Due to their very low savings rate, they had no surplus to invest. On average, they held 1 ha of unselected rubber that earned them IDR 2.3 million per year, or ten per cent of their overall income (Tables 4.1 and 4.2). In addition, they averaged 1.1 ha of mature and 1.4 ha of immature oil palm, earning on average IDR 7.9 million. Although they had planted unselected oil palm seedlings, due to the low productivity of their unselected rubber and the low rubber

prices, their income per hectare from oil palm was more than three times that from rubber. Poor farmers were responding by planting unselected oil palm planting material. Consequently, they struggled to hold on to their land, especially at times of familial crisis. Even if they managed to plant inferior oil palm seedlings, it took great effort to retain these areas. If they sold land in order to rehabilitate another area, the danger remained that they would consume their capital before the new plot became productive and would be forced into a crisis sale. Thus, this class of poor local landowners were included in the oil palm boom at best on very adverse terms.

(d) Labourers. We found two categories of wage labourers in the survey. The first were those who had lost their land and were now working as casual wage labours. On average, they achieved paltry savings after taking into account recurrent household expenses of IDR five million per year (Table 4.2). The second consisted of a class of "waiting farmers" or caretakers (*petani menunggu*), typically landless in-migrants from Java. They were paid for maintaining the oil palm holdings of "prosperous farmers" and providing security to landowners in the successful PIR-Trans and KKPA villages. They were provided with a subsistence allocation (food and housing) and a small retainer from the landowner. In the houseyard they could plant a garden and manage chickens, while supplementing their income with casual labour in surrounding areas. Some were provided with a simple house in the middle of the oil palm (Figure 4.4). These farmers netted on average IDR 9 million (USD 755) per year, compared with an average of IDR 5 million for the combined group of labourers (Table 4.2). The more entrepreneurial among them worked as specialised contractors (*borongan*), an arrangement where the individual received a lump sum payment for a quantity of work and then sub-contracted elements of the work to casual day labourers, extracting a surplus in the process. In contrast, landless Melayu tended to remain day labourers, both because they were unwilling to leave their homes to take up residence in isolated oil palm holdings of more affluent landowners and because landowners generally believed that the Javanese had a much better work ethic. This seemed likely to ensure further differentiation between numbers of upwardly mobile Javanese labourers shifting from landless workers into smallholders, while many Melayu moved in the opposite direction into the category of landless workers.

Figure 4.4. Farm house in newly established smallholding in Jambi (Photo: John F. McCarthy)

Village 1

The first village investigated was a village of 571 households, including a hamlet of about 120 transmigrants, which lay along the major trans-Sumatran highway linking Medan to Jakarta. The village hosted a KKPA scheme consisting of 689 ha of nucleus estate land and 1,908 ha of plasma lands. Several village leaders had obtained entitlements in a neighbouring PIR scheme and enjoyed a substantial oil palm income. These leaders became enthusiastic advocates of a KKPA scheme, setting out to persuade other villagers to participate. There was some debate over the extensive village common lands—large areas of secondary forest and underutilized land, including former swidden areas—that could be developed in cooperation with a partner company. At first the village would only agree to a small plasma area, but then the village leaders persuasively argued that, "as there is still lots of village land available, let's make it bigger".[18]

The village appointed a team to manage the village lands for inclusion. In village discussions, villagers were told that common lands still under the collective "right of avail" would be divided up, with 70 per cent of these lands being returned to participating villagers as a pro rata entitlement. Under this first team, each eligible farmer was to receive 0.5 ha. Later, this was revised by a second village team, with villagers now to obtain 2 ha. In addition, those who surrendered individual landholdings to the scheme would obtain 70 per cent of their lands back as productive oil palm smallholdings.

However, the scheme suffered from a lack of state supervision and control. The district agricultural agency visited the scheme irregularly. At least according to some respondents, the National Land Board (*Badan Pertanahan Nasional*, BPN) did not supervise the land surveys effectively, leaving management of land affairs in the hands of the village team. Even in this village, where information circulated the most widely, entrenched local village hierarchies dominated the processes of organizing land preparation, tenure, and credit and market arrangements. A contractor implemented the initial land preparation in the absence of effective control from the plantation company. Accordingly, especially after the first Indonesian "partner" plantation company went bankrupt during the economic crisis, many areas were poorly prepared and managed. Amidst allegations of mismanagement and misuse of funds by the cooperative and the contractor, many plasma areas remained unplanted or did not have the requisite number of palm trees per hectare. One farmer noted that, although there should be 175 trees per smallholding (*kapling*), some had up to 125 plants missing. Nonetheless, the cooperative would still calculate the credit owed based on the amount of land rather than production. Further, many entitlements were already small. While in theory each farmer should obtain 2.0 ha after providing 2.8 ha to the scheme, due to pressure to include more farmers in the plasma developed on the communal lands, the average area provided by farmers was 2.0 ha and hence those with entitlements only received 1.6 ha.

Under normal arrangements, oil palm is returned after four to five years to participating smallholders. Following the collapse of the first plantation partner, villagers became uncertain about whether the development would materialise. Furthermore, under the particular arrangements for this site, the process for returning the land to farmers remained unclear. The poor land preparation also contributed

to a considerable delay in returning the land to participating farmers. With the cooperative and the company blaming each other, farmers did not know where to take their demands.

Brokers, allegedly including members of the village team, agents of the cooperative (KUD), and agents of the new Indonesian "partner company", offered to buy up the unproductive entitlements, telling villagers, "you don't know if you will get land. Better for you to sell".[19] When the land was finally distributed, villagers discovered that 50 per cent of production was taken to pay for cooperative costs and the repayment of credit. As the land was neither divided up nor allocated in a transparent way, drawn-out and convoluted disputes emerged between villagers and the village team responsible for land arrangements. As one farmer noted, he had provided 12 ha to the team but only saw 2 ha returned. Given the significant problems with the village team, it became the focus of conflict rather than the company or the cooperative.

The village team first distributed individual landholdings that had been enclosed in the scheme. Farmers were dismayed by the small area they received and the level of debt associated with these entitlements. Most decided to sell during the economic crisis when they faced a collapse in rubber prices. In the early years of the oil palm boom that followed, villagers continued to sell individual entitlements, typically to meet a pressing financial need or for consumption purposes.

Nonetheless, a careful intervention by a district government official resident in the village, who had been entrusted with the administrative arrangements, forestalled complete disaster. He carefully added the names of all those in the village who might claim an entitlement from village common land. Although the KKPA regulations allowed that each household should only receive a 2 ha entitlement, he included several members of the same family, aiming to ensure the maximum number of villagers received plots from the village commons. By creating entitlements for these villagers, this skilled administrator forestalled the village team selling large areas of village common land to outsiders.

Due to the disputed nature of land arrangements and the poor preparation of much of the plasma lands, there was a long delay before the village team began to distribute the pro-rata entitlements from the village common lands. By this time, villagers had learned

of the value of oil palm entitlements. This was partly due to village leadership. As the former village head noted: "At every opportunity I told them if you survive only on old rubber gardens, this doesn't have a future. If you don't have a job as an official or have oil palm, it is really difficult to see how you have a future."[20]

This village benefited also from its location on the trans-Sumatran highway. Given the ease of access, villagers often interacted with in-migrants getting off the bus looking for land. Villagers made use of extensive extra-village networks that offered the opportunity for rapid social learning. With outsiders migrating into or marrying into the village, there were up to 30 families from outside, together with a large number of transmigrant households, settled in the village. Rather than continuing extensive agricultural practices over a large area, these farmers sought to manage small areas of land intensively. This change in values occurred before the distribution of pro-rata village entitlements. Consequently, village leaders estimated that 80 per cent of village landowners retained their allocation of between 1–2 ha of village common land. During the oil palm boom, this village emerged as the most prosperous Melayu village in the district, with most indigenous farmers falling into the category of "progressive farmers".

Village 2

In contrast, outcomes were more mixed in the neighbouring village, located some five kilometres off the trans-Sumatran highway. According to village interviews, by 2009, the village structure consisted of an elite of 10 households of prosperous farmers, 140 households of progressive farmers, and the remaining 200 farmers falling into the categories of poor landholders and "waiting farmers", with about ten per cent of villagers without any land.[21] The village had allocated 4,150 ha for the KKPA development. With originally only 300 resident households, the scheme should have led to villagers obtaining substantial oil palm entitlements from the 2,915 ha of plasma lands that would have been returned under the 70:30 arrangement. However, only 1,500 ha were returned.

In a similar fashion to the other villages, the scheme proceeded in the absence of state-provided governance structures to provide oversight and control, and without effective control from below. Given

the ethnic homogeneity and comparative remoteness of the village, farmers had less access to information; villagers were slower to read the situation and to adjust to the oil palm trend. According to one critical village leader, the cooperative (KUD), working together with the village team, colluded in the sale of some large areas of plasma land to businessmen and officials from sub-district, district, and provincial centres. He alleged that poor farmers were manipulated to acquiesce in these sales as they were told, "if don't sign the deed of sale, you won't receive a payment. If you sign, then you will obtain a payment of IDR 500,000."[22]

As noted earlier, the plasma development stalled during the economic crisis, with large areas of land remaining unplanted. Once again, large numbers of villagers were tempted by village brokers and members of the village team arranging the land to sell their plasma entitlements. According to the village head, about 40 per cent of resident Melayu households sold all their plasma entitlements and consequently failed to benefit directly from the oil palm scheme. In 2003, some seven years after villagers had provided their lands to the scheme developers, villagers staged a demonstration, demanding their plasma lands finally be returned.

As in the first village, the operation of the cooperative continued to be surrounded by rancour, particularly regarding accusations of a lack of transparency and accountability in credit arrangements. According to the original agreement, farmers were obliged to repay IDR 16 million for the cost of developing the plasma lands. A former village headman alleged that this debt had been inflated to IDR 26 million without any clarification or discussion with cooperative members. Calculating that the credit should have been repaid after 8 years, he observed that after 13 years "it was still not finalized". He remarked, "We still don't know how much we owe or how much we have paid, although there should be a clear record."[23]

Many villagers retained "sleeping land"—typically 2–3 ha of poorly managed "jungle rubber" gardens that they had no capital to bring back into production. Over several years, brokers induced villagers to sell remaining village common lands and unproductive "sleeping" lands in blocks to investors from outside, or *petani berdasi* ("farmers who wear ties"). The village head observed that remaining village lands were finally exhausted in 2008 when the last parcels were sold. With the former governor, his secretary, and a district head

developing 1,000 ha of plantation lands within village boundaries along the trans-Sumatra highway, and Batak in-migrants buying up another 500 ha, there had been a rapid process of land accumulation by external actors. Fortunately, due to the extensive nature of village lands, only about 10 per cent of villagers were landless. Further, with some 60 per cent of villagers retaining areas of KKPA scheme oil palm, there were now extensive labour opportunities in village plantations (*see* below).

Village 3

The most remote and poorest of the three villages participating in the KKPA scheme was a settlement of 188 households. This village allocated about 900 ha to the scheme—300 ha for the nucleus estate and 600 ha for return as oil palm smallholdings. Village respondents noted that only about 10 of the 188 households—those close to the village head and other key village leaders—managed to hold onto some KKPA oil palm entitlements.

The village proved least able to respond to the challenges presented by oil palm. Faced with the same inducements as their neighbours, villagers here sold their plasma entitlements even more readily. When brokers made offers for plasma as well as unproductive rubber land and remaining areas of village common land, as one local official explained, the villagers were struck by "euphoria" to sell their land:

> The brokers went around saying, "it's a dream, it won't happen". At the same time they have an entitlement to an unproductive oil palm smallholding. They were offered IDR 100,000 [USD 14] per hectare at the time of the feast after Ramadan, when they had difficulty eating or sending their children to school. Just when they had a real need, there's this opportunity to sell their land. More land was sold in the wet season [a crisis time for rubber farmers because rubber gardens can only be intermittently tapped].[24]

Key figures in the local town bought up large parcels of land, with the family of the district head purchasing 100 ha along the main road into the village. The former village head estimated that around 30 per cent—60 of 188 households—were now landless, most surviving as poor casual day labourers without livelihood security or worker protection.[25]

Same Scheme, Divergent Outcomes

We can understand these outcomes in terms of specific structural and contextual factors. First, the KKPA scheme was inserted into an already differentiated social landscape. As a district Department of Agriculture official explained, "the flavour of the local elite is to take advantage of someone's difficult times to extract their land from them."[26] The usual practice was for those suffering from a livelihood or familial crisis, or who were unable to buy rice, to approach wealthy villagers to ask for rice. As the official explained, "they would provide one third of a quintal [of rice] with the land as a guarantee." As in many cases the village poor could not repay their debt, "they would end up losing their land". Such practices now led to the loss of plasma land planted with oil palm.

Second, due to the extensive land available in the past, land ownership was relatively homogeneous—most villagers had several hectares of local rubber as well as areas they could access to plant dryland rice, either "sleeping" swidden land or village common lands originally reserved for these purposes. Under these conditions, villagers readily sold land, for example to pay for their children's weddings. As a village teacher explained, "they easily obtained a new garden (*kebun*), and easily sold it as well."[27] These practices continued as the land frontier closed—before villagers described by one informant as "sleeping villagers" woke up to the implications of increasing land scarcity. With the enclosure of large areas for the KKPA scheme and on-selling outside the village, land had now become scarce and many faced landlessness. As villagers pawned their plasma land for loans, large numbers of the village poor lost the oil palm opportunity while village elites—typically those with extensive landholdings, officials in the local government, and intermediate traders residing in the village —accumulated large areas of plasma.

Third, a key problem remained the measure of village control over the institutions and processes that affected their capacity to participate in the KKPA scheme. From the above-mentioned narrative, it is clear that the key institutions here were the village teams and especially the cooperative. The wealthier in the village and sub-district clearly dominated these institutions, through which the opportunity to participate in the KKPA was channelled, on occasion using their authority to appropriate the opportunities conducted through them.

In order to participate in the KKPA scheme, villagers needed to conform to a bureaucratic procedure laid out in state regulations largely organised from above. For only through the state-sanctioned legal personality of the cooperative could villagers access bank credit and enter into "partnerships" with plantation companies (McCarthy 2008). The key problem was that this bureaucratised mode of resource control was open to manipulation leading to less than effective control of participants. Those in management positions inevitably controlled the circuits through which farmers obtained legal certification for their land rights as well as accessed agricultural inputs and sold market outputs (White 1997). In this case, the manager of the KUD operated in a highly clientelist fashion. The lack of secure and enforceable rights over private and village common land weakened the bargaining position of landowners and left them vulnerable to elite manipulation during the processes whereby "informal" and "fuzzy" rights were translated into formal legal entitlements.[28] Further, even where formal regulations provided for forms of transparency, representation, and accountability in cooperative arrangements, villagers lacked an effective means of holding village and cooperative leaders to account in the absence of social mobilisation. These weaknesses affected the ability of landowners to secure access to the benefits of production (Zen, McCarthy and Gillespie 2008).

Finally, the differences between villages might in part be understood in terms of the ways in which economic, geographic, and social isolation interact. A range of factors, including the physical location of a village, the heterogeneity of its population, its openness to change, the calibre, charisma, and commitment of the village leadership, and their position vis-à-vis clientelist arrangements, all coalesce to shape the webs of personal connections, influence and accountabilities that mediate social choices. The structural disadvantages individual villagers face within a particular context affect the terms on which individuals engage with social life (Mosse 2007), affecting their ability to procure resources "by virtue of their relationships with other people" (Grootaert et al. 2004: 3). Critical resources here include information and ideas, including about market conditions and trends. These structural disadvantages also affect the ability to make use of resources and opportunities, including government programs; for example those offering subsidized high-quality rubber or oil palm planting material

or fertiliser. While the "non-poor" may be "diversifying networks and expanding their access to a vast array of resources", the constrained networks of the poor—associated with their position in relationships of unequal power—reduce their access to key resources (Dudwick et al. 2006).[29]

In addition to there being different outcomes from the same KKPA scheme, there were even more marked differences between different types of schemes and those villages outside of any scheme. Table 4.3 shows the gap between Village 1 (the more successful KKPA village discussed above), a fourth village where the earlier, more successful PIR-Trans scheme was implemented, and Village 5, a village that missed out on oil palm schemes altogether (discussed in more detail below). While these are average figures, they illustrate the economic gap between those who benefited from earlier schemes and those left behind. Most successful farmers in the PIR-Trans scheme in Village 4 now had extensive mature oil palm holdings and were enjoying the oil palm boom. In comparison, many of the KKPA farmers in Village 1 only had one *kapling* (2 ha) of high-yielding oil palm, often on not well-prepared land. In comparison, in Village 5 the elite retained high-quality oil palm holdings in the neighboring PIR-Trans scheme. However, for the most part, Melayu villagers in Village 5 did not have high-yielding oil palm and earned well below the average total income for Village 5 as illustrated in Table 4.3. In contrast, they were still struggling to open areas to plant with unselected oil palm seedlings. This meant that, while PIR-Trans farmers (Village 4) were expanding into surrounding villages and KKPA farmers (Village 1) were managing to hold on to their land and even extend their area of oil palm into their less-productive rubber lands, many of the poorer farmers (such as those in Village 5) had been squeezed because they had sold many parcels of land.

THE REFORMASI PERIOD: LAISSEZ-FAIRE

The 1990s marked a shift in perspective regarding state-society relationships. With the state no longer seen as the primary locus of political power and authority, its role was widely seen to lie more in "enabling"—shaping outcomes by establishing the regulatory framework and providing the institutional context. This shift in the ways

Table 4.3. Average incomes by source and village (IDR million) in 2010

Source of income	*Village 1 (KKPA) (n = 14)*	*Village 4 (PIR-Trans) (n = 9)*	*Village 5 (Independent smallholders) (n = 20)*
		– IDR million –	
Selected local rubber	24.9	0	9.8
Unselected oil palm	43.9	131.6	80.2
High-yielding oil palm	132.0	163.6	67.2
Off-farm income	23.3	23.9	42.0
Total income	224.1	319.1	199.2
Household expenses	183.9	195.9	178.8
Surplus (income less expenses)*	40.2	123.2	20.4

* Including farm expenditure and consumption expenditure.

used to achieve policy objectives and address complex policy problems accompanied the renewed advocacy of strong individual property rights, the rule of law, and freely operating markets and free trade. It is debatable to what extent the Indonesian state conforms to the typology said to accompany this agenda—in other words, the "neoliberal state" (Harvey 2005: 64). Yet, clearly the shift to decentralisation, public-private partnerships (between market actors and the state), and social-private partnerships (between market actors and communities) has affected Indonesian policy processes, particularly post-1998—a key juncture in the transition from a developmentalist to a neoliberal, market-driven model. Since this time, successive governments sought to replace "the over-centralized and discredited New Order state along with its equally discredited and highly interventionist economic policies with a more democratic, decentralized and more market-oriented political economy of accumulation and growth" (Rock 2009: 44). This change also marked a withdrawal from effective state engagement in the processes of agrarian change associated with oil palm, at least in the study district.[30]

In this district, the state effectively withdrew from underwriting the state-agribusiness mode of incorporating smallholders. After the end of the KKPA period, oil palm development was now to occur

in the absence of direct state engagement in providing subsidies for a smallholder component (McCarthy and Cramb 2009). To be sure, in a number of remote village areas with suitable land, plantation companies continued to expand under a "partnership" model, once again without effective state involvement.[31] Outside these villages, farmers repeatedly requested assistance, particularly for high-quality planting material. However, the local district parliament channelled the limited available development funds into other projects, such as a new ferry linking the region to Singapore. Arguing that plantations provided sufficiently for oil palm expansion, the district agricultural service focused on a few very diminutive smallholder rubber development projects. In effect, the local state presided over a laissez-faire situation, allowing the oil palm boom to run its course.

Although widely criticized, the state-driven mode of engaging agribusiness in processes of agrarian change had generated a cohort of farmers—initially in the PIR-Trans schemes—who had accumulated oil palm technology and knowledge as well as significant income streams. Eventually, they were able to access investment capital. Once they had paid off their credit, they could obtain land certificates. By using their existing certified land entitlements as collateral to borrow from local banks to expand production, landowners escaped the "bell jar" that precluded those with "traditional" land rights from obtaining access to bank credit. At a time of rising palm oil prices, many of these landowners used these accumulated assets for the rapid expansion of their holdings. During the later years of the oil palm boom prior to 2008, these actors were joined by successful KKPA farmers who were using income streams from productive oil palm holdings to invest in upgrading other areas of unproductive land into oil palm.

By this stage, a class of rural entrepreneurs was also taking up oil palm. These included entrepreneurial villagers who had accumulated capital through the "illegal logging" practices that had dominated the region prior to the oil palm boom. They joined significant numbers of intermediate rubber traders and other local businessmen, as well as land brokers who accumulated capital through buying and selling plasma lands in the PIR-Trans and KKPA areas.[32] These actors either bought up areas of land or entered into profit-sharing arrangements with local landowners, using their capital to cut down rubber gardens and open new areas for oil palm.

A cohort of ethnic Batak migrants also moved in from Sumatra's century-old plantation belt to the north. These in-migrants accessed knowledge, oil palm technology, and capital from kinship networks and previous experience in oil palm enterprises that had dominated the landscapes of the provinces of North Sumatra and Riau for decades. They were joined by local government and business networks that were busy translating their power and finance into oil palm entitlements. Lower-level local officials could readily use formal certificates of government employment—indicating their permanent and secure income stream—to borrow money from local banks to buy land and open oil palm smallholdings. For example, interviews in a local school in 2008 revealed that 9 of the 13 teachers had used their position in this way to obtain credit to open oil palm plots.

Village 5

To understand the processes set in train by unconstrained commodity markets, interviews were carried out in a more remote Melayu "rubber village" (Village 5 in Table 4.3). This village of about 183 households had altogether missed out on the PIR-Trans and KKPA interventions.[33] By 2009, 12 households had accumulated more than three *kapling* (6 ha) of oil palm, another 5 had planted around two *kapling* (4 ha), and 23 households had planted around 2 ha. Most dramatically, only about 40 households had retained areas of underproductive rubber gardens, with village leaders estimating that about half of the households in the village had become landless since the advent of oil palm. At the time of the research, the practice of employing "waiting farmers" had yet to emerge to any significant extent. At the same time, rubber farmers had been blighted by the collapse in rubber price since 2008, exacerbated by the low productivity of existing rubber gardens and infestations by pests. Consequently, the previous two years had seen the collapse of the old rubber economy, with the on-sale of large areas of land to "prosperous farmers" (largely landowners from the neighbouring PIR-Trans scheme) together with the large-scale cutting down of old rubber gardens to replant with oil palm.[34] With the surge in palm oil prices throughout 2007, villagers became enthusiastic about oil palm, but many had just a few hectares of rubber and, lacking a land certificate or a business to guarantee a loan or

a partnership with a large plantation company, they found themselves locked out of the boom. At the same time, village leaders described how large numbers of "prosperous farmers" from the neighbouring PIR-Trans settlement had bought up large parcels of land through village land markets and were planting them with oil palm.

The process whereby villagers buy and sell land within village land markets played an important role here. Indonesia's dualistic land tenure system distinguishes formal, state-registered title from the "customary" or "informal" land rights enjoyed by most rural landowners. Yet formal state law also requires that the transfer of land be carried out according to a government-certified process, including rights to land not subject to a registered title—the majority of village land. Such land may be sold with the transfer of a proof of title, typically a letter of acknowledgement of rights (*surat keterangan hak atas tanah* or SKT) (Fitzpatrick 2007). The transaction needs to be witnessed by the village head, with the sub-district head (*camat*) having the authority to issue a SKT. This process comes into play when buyers, especially those from outside the village, purchase land. Given the embedded nature of land rights, the pervasiveness of land conflicts, and the reality of overlapping land claims, these buyers are afraid to procure land from within the village without some assurance that land is "fixed" according to customary assumptions and with the appropriate authorities. However, due to the expense of obtaining state-certified land tenure and the administrative hassle of processing the full SKT, buyers are generally satisfied to obtain a letter with an official stamp from the village head—which actually is only the first step in obtaining a proof of title according to state law. Consequently, land sales occur at the village level, often without the appropriate administrative checks and balances. In the absence of effective webs of accountability, this system is open to abuse and amounts to a tenurial regime that creates "substantial uncertainty" (Fitzpatrick 2007).

The process of commodifying village lands involved two processes. On the one hand, Melayu villagers continued to sell off unproductive areas of land for a variety of reasons. With spiralling land prices and large sums of money on offer, farmers in these remote locations—unable to access the means to enter the oil palm industry and not yet cognizant of the increasing value of land under conditions of growing scarcity—sold off individual land entitlements. Interviews revealed that farmers typically sold land close to the Lebaran feast at the end

of Ramadan to meet festival expenses, to marry a child off, or to buy a motorbike, or in a crisis sale to deal with an immediate livelihood crisis. To some degree, this on-sale represented a continuation of old practices, with villagers until recently believing that there were still significant areas of land available in the village commons or in the "state forest" beyond. Yet, a crisis sale might push a family into a downward spiral to landlessness and poverty. Village leaders estimated that this process of land sale and accumulation had left about half the villagers landless.

On the other hand, influential villagers had gone out into the common village lands (*hutan lepas*) and staked out parcels of land that were then sold on at a large fee to the neighbouring plantation company.[35] As one respondent reported, "those who are strong go out to the [village] forest and claim land, dividing it into sections, then selling it off to the company."[36] The plantation company solicited the process, indicating to village brokers the areas where it had its "location permit" (*izin lokasi*) and where it wished to expand.[37] The village head facilitated the process by issuing a letter (described above), for a fee, recognizing individual title over sections of communal land. This letter then became a basis for legitimate on-sale to an outside buyer—the plantation company. In three adjoining villages, a district entrepreneur who now occupied the position of district head had formed partnerships with village leaders, employing land brokers who facilitated the division of village lands into individual blocks for on-selling.

Taken together, these processes ensured the prompt on-selling of individual plots as well as the privatisation of village common lands that previously functioned to allow villagers to plant subsistence crops (principally dryland rice) during periods of crisis. As the village school teacher described it, this amounted to a process of creating "coolies". After Melayu landowners sold their land, they were forced into insecure livelihoods, such as illegal logging, mining gravel in local rivers, or poorly paid piece work on other people's oil palm land.

Here the "thresholds of inclusion and exclusion" discussed earlier —such as the difficulty of accessing the technology and the capital required for successful oil palm agriculture—came into play. Given the poor availability and high price of high-yielding oil palm seedlings, Melayu smallholders planted low-quality seedlings that provided only a third of the productive output of improved varieties. This meant

that while many Melayu smallholders retained unproductive areas without the apparent means of making them productive, others were merely replacing unproductive jungle rubber with low-yielding oil palm seedlings. Even the "progressive farmers" mentioned above mostly could only afford these poor-quality seedlings. In contrast, those with knowledge and networks outside the village—particularly in-migrants and those with links into the plantations—were able to access superior quality seedlings. In a similar fashion, while "prosperous farmers" could afford to apply fertiliser, Melayu smallholders were unable to access fertiliser, further locking them into a cycle of low production.

Further, smallholders who planted oil palm outside the PIR-Trans and KKPA schemes were integrated into different value chains. Independent farmers sold their FFB, typically harvested from inferior planting materials, to intermediate traders rather than directly to agribusiness mills.[38] As these intermediate traders extracted significant margins and also operated outside the state-regulated price-setting arrangements, this worked to diminish the benefits flowing to independent smallholders, further sharpening the process of differentiation.

In all this, the state remained formally absent, abstaining from direct intervention in this transition. However, informally, local state-based actors were working en masse to enlarge their landholdings. In this sense, the state's absence, deliberate or otherwise, contributed to the trajectory of agrarian differentiation—the process leading to the eclipse of customary entitlements over village common lands, and the large scale on-selling of locally held land.

CONCLUSION

During the state development period, as in other developing country contexts, the Indonesian state together with donor agencies embarked on a strategy of improving the productivity and incomes of the poor via rural development programs. As elsewhere, this phase of "defensive modernisation" created a class of modernised, small-scale market producers more effectively integrated into international commodity markets (Bello 2009: 29). In this case, the interventions also advanced agribusiness agendas by brokering access to land and labour. This worked by linking smallholders by contract to a larger agribusiness core, where the core or nucleus estate exercised various forms of control over the production process (White 1997). These programs assisted

cohorts of smallholders to overcome the "thresholds of inclusion and exclusion" (Fortin 2005) that the poor could not cross on their own. However, this process worked very unevenly, with the terms of smallholder engagement with agribusiness varying both spatially and temporally.

Particularly after the advent of more market-driven policy approaches that entailed the substantial withdrawal of the state from rural development, a second wave of agrarian change has occurred. Global consumer demand—linked to global vegetable oil and (more recently) emergent biofuel markets—helped stimulate a local shift in the allocation of resources to palm oil production. Under liberalised laws, the supply of oil palm inputs, technologies and services, together with the emergence of market intermediaries, spread outside the state-agribusiness dyad that had previously controlled the palm oil commodity chain. Further, state policies underpinned the continued operation of long-standing practices of land accumulation, dependent on insecure tenure and informal land markets.

In a similar fashion to the earlier transformation of forest landscapes in Sumatra (McCarthy 2006), state-based actors played the decisive role within district networks of power and interests. With the demise of natural forests as the key local resource, these networks shifted to coalesce around the new strategic resource in the area—land for oil palm expansion. These networks reached down to encompass privileged village actors who continued long-standing practices that involved using their relative power to exploit the livelihood crises of weaker villagers as a means of gaining permanent control over an expanded set of rural resources. Decentralisation reforms formally encouraged the extension of forms of political accountability, but may in fact have exacerbated the problem of institutional capture, for "the ability to demand and exercise accountability implies power" (Newell 2006: 38). In the absence of broader processes of social change, including coalitions able to oversee and contest unfavourable district processes, these formal changes seem to have translated into the relative empowerment of existing networks rather than actors who might secure a better dispensation.

State-agribusiness interventions and the trajectory of state intervention and withdrawal helped generate the conditions for agrarian differentiation. The first phase of intervention facilitated the emergence of an incipient commercially oriented rural landowner class, with

entrepreneurs and smallholders gaining privileged access to capital, technology, land and (later) labour. As this process of rapid change set in, the economic power accumulated by those controlling the new crop threw "property and social relations up in the air" (Sturgeon and Sikor 2004). As these actors set about buying up land in the newly booming land market, this led to "a dynamic process involving the emergence or sharpening of difference within the population" (White 1989: 25). In a similar fashion to the spread of cocoa in Sulawesi (Li 2002, 2007, 2014), the spread of oil palm was associated with patterns of inclusion/exclusion and adverse incorporation, with the commodification and on-selling of village common and private lands entailing an irreversible shift in the ownership of agricultural assets away from poor Melayu villagers towards successful transmigrants, in-migrants, and village and district elites.

Consequently, the state-agribusiness process of intervention for smallholders has given way to a process whereby the spread of commodity markets for oil palm independent of the state-agribusiness schemes has provided the engine for rapid agrarian change. Those left out of the first wave remained unable to access the requisite capital and technology; in the absence of further interventions in this location, they were unable to exchange surplus land for a position in the expanding palm oil market. With the emergence of palm oil as a commodity leading to the transformation of rural agrarian structures, this process defined a particular distribution of social power in the countryside that is likely to be long enduring.

The absence of engagement by the state, international donor agencies, and wider civil society actors with this oil palm transition may amount to swallowing the unpalatable message of the *World Development Report 2008* that, because not all farmers can succeed in integrating into globalized value chains, policy should allow for the advancement of "a small segment of dynamic market-orientated smallholders while letting the rest find alternative pathways out of poverty, through wage labour or migration" (Oya 2009: 598). While this outcome is problematic (Li 2009), it is the most likely scenario for poor Melayu in the study area. In this sense, while acknowledging the problems associated with agribusiness-led transformation, there is a clear need for re-engaging the state, donors, local and international civil society actors, and even agribusiness in changing "the terms of adverse inclusion" under which the transition is taking place (Cousins

2009: 905). This is especially so given the inexorable momentum of oil palm development created by its continued attractiveness as an investment and a smallholder crop.

A more inclusive oil palm future may require the revival of a developmental state able to inject the type of resources required for poor farmers to overcome the barriers to effective inclusion and to assist smallholders in securing pro-poor outcomes (Hickey and du Toit, 2007). In particular, the state needs to devise and roll out programs on a broad scale to provide high-yielding planting material and technical support to poor farmers. The problem is related to weakness of state institutions and the failure of the agricultural agency (*Dinas Perkebunan*) to provide an effective extension service. Further, plantations are not obliged to provide high-quality planting material to farmers, while cooperatives, farmer unions, and NGOs also fail to help poor farmers sufficiently. In addition, independent smallholders receive only low prices from selling to independent oil palm mills via intermediate traders who are not subject to government price-setting arrangements.

Yet, even if it had the resources or policy interest, the "state is an institution fraught with contradictions", too often captured and compromised by economically powerful sectors, frequently playing a brokering role that compromises its ability to act as a neutral arbiter (Sawyer and Gomez 2008: 30). An alternative line of reasoning argues for reworking the conditions of inclusion into global value chains to redress the way these chains function to exacerbate chronic poverty (Ponte 2008). Notwithstanding, change may also ultimately require "building coalitions to oversee and contest the translation of legal obligations into lived realities" (Newell and Wheeler 2006: 16)—coalitions working across state and civil society to develop the capacity to discipline abuses and corruption and to exert the pressure required to hold the state accountable to realise a more inclusive future.

NOTES

1. An earlier version of this chapter was published as John F. McCarthy, "Processes of inclusion and adverse incorporation: Oil palm and agrarian change in Sumatra", Indonesia. *Journal of Peasant Studies* 37 (2010): 821–50. It is reproduced here with permission.
2. For a wider discussion, *see* special editions of the *Journal of Agrarian Change* 9 (2) and *Journal of Peasant Studies* 36 (3).

3. 'Ekspor harus lewat Jambi,' *Jambi Ekspres*, 16 June 2009.
4. This periodization is of course schematic—there are continuities across these periods without necessarily clean breaks between them.
5. For exceptions in the scholarly literature, *see* Potter and Lee (1998), Potter and Badcock (2004), and Rist, Feintrenie and Levang (2010).
6. As described in Chapter 3, while the government has launched a program of "revitalizing plantations" that aims to support smallholder oil palm development, this program has yet to have significant impact. *See* Revitalisasi Perkebunan Terkendala, *Kompas*, 19 Jan. 2009.
7. Although there were five PIR schemes implemented in the period following 1978, we focus here on PIR-Trans implemented in the study district.
8. For a discussion of the domestic political objectives of transmigration, *see* Levang (2003).
9. Research in other areas of Indonesia reveals wide variation, with many villages continuing with a wider portfolio of livelihood activities (Cramb et al. 2009). In this lowland area, by comparison, oil palm and timber plantations enclosed large areas, closing out these more diversified options.
10. From 1997, a series of ministerial decrees set out a formula for calculating oil palm FFB prices, working to reduce the dominance of the plantation monospony arrangement.
11. The price of crude palm oil increased 88 per cent from USD 570 per ton at the beginning of 2007 to over USD 1,440 per ton in early March 2008.
12. For discussions of cooperatives in Indonesia, *see* White (1997), Henley (2007), and McCarthy (2008).
13. Interview with former village head, Feb. 2008.
14. It remains unclear to what degree this may lead to "occupational multiplicity", the de-linking of livelihoods and poverty from land (and from farming), delocalisation of livelihoods and the spatial fracturing of households discussed by Rigg (2006).
15. In 1994 a state poverty alleviation program (Inpres Desa Tertinggal or IDT) identified the poorest or "left behind" villages (*desa tertinggal*) for special assistance, including this particular village.
16. For further detail, *see* McCarthy (2008)
17. Assuming 1 USD = IDR 9,500. At this time the price of wet rubber was IDR 4,500 per kg and the price of oil palm was IDR 1,200/kg FFB.
18. Interview with plasma farmer, 9 Feb. 2008
19. Interview, village head, Mar. 2009.
20. Interview with former village head, 10 Feb. 2009
21. Village informants found it difficult to distinguish poor farmers with land from landless wage labourers.

22. Interview with village head, 10 Mar. 2009.
23. Interview with village head, 15 Mar. 2009.
24. Interview former village head, 12 Mar. 2009.
25. As noted above, casual day labourers typically work harvesting the fruit and carrying out husbandry tasks (applying fertiliser and pesticides and cleaning and weeding the land).
26. Interview with District Agricultural Officer, 19 Feb. 2008.
27. Interview with school teacher, 3 Feb. 2008.
28. Commoditised transfers of land occur both within the framework of local "informal" and state-regulated institutional arrangements. As transactions in both spheres can work against the poor, "fixing" the problem entails much more than a program of formalisation of property rights. As Cousins (2009: 905) notes, legal empowerment can provide "a potential platform" for change rather than reduce poverty per se, primarily because "formal rights in law often have little substantive content" in the face of "asymmetries of power and use of law".
29. The structure of a given network and the ability of an individual to make use of their position within it is sometimes referred to as "structural social capital" (Grootaert et al. 2004). For a critical discussion of the theoretical assumptions underlying the social capital concept and its application, *see* Mosse (2007).
30. The exception here is the state program of "plantation revitalization", which has yet to have any appreciable effect on this oil palm district.
31. While these cases were outside the main research sites, a visit was undertaken to one such site. This "partnership" scheme was implemented without effective state oversight, and without farmers understanding land- and profit-sharing arrangements. Several respondents suggested that, although the company retained the 70:30 land division of the PIR-Trans and KKPA periods, the company would only return 20 per cent of the income derived from plasma lands to participants. With very poor benefits associated with the scheme, most villagers had already sold their land. For other partnership cases, *see* Zen, McCarthy and Gillespie (2008).
32. One broker interviewed in the course of this research had used his first scheme plot to trade upwards, selling it for a large profit, and then buying a second and a third plot, which he then sold on. Building up his capital along the way, eventually he opened his own plantation. In 2008, he had 300 ha under various stages of cultivation.
33. Next to this village was a large plantation. During the 1990s, villagers surrendered large areas of land, initially with the understanding that they would obtain plasma land in return. There was a lack of agreement within the village regarding this plan because it would enclose productive rubber lands on which farmers depended for their livelihoods.

34. At the height of the oil palm boom during 2008, successful transmigrants from the PIR-Trans settlements were earning enough to purchase a car, a motorbike, or buy up new areas to grow more oil palm.
35. Interview, 16 Mar. 2009.
36. One villager facing a bleak future obtained the capital to buy up new lands and become a "progressive farmer" in this fashion.
37. As a first step in processing a concession license, plantation companies obtain a "location permit" (*izin lokasi*) that entitles them to proceed with developing an area, subject to compensating local landowners for land held under "traditional" title. In this case, the company proceeded to legitimise its extension over village common land through this pretence of legal purchase.
38. Interviews with intermediate traders suggested that most oil palm, even from "progressive farmers" working outside their KKPA entitlements, was grown with low quality seedlings.

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CHAPTER 5

Alternative Pathways for Smallholder Oil Palm in Indonesia: International Comparisons

Lesley M. Potter

This chapter is concerned with alternative smallholder pathways in oil palm production, and with a search for methods and techniques which are "smallholder-friendly" and might be applicable to the Indonesian context. It is argued that the position of oil palm smallholders in Indonesia is becoming less favourable, especially among those in a "tied" relationship to estates, but including many classified as "independent". The role of regulatory bodies such as the Roundtable on Sustainable Palm Oil (RSPO) in certification of oil palm products is becoming increasingly applicable to smallholders. The Indonesian Sustainable Palm Oil (ISPO) system was supposed to be adopted by all plantations by the end of 2014 and apply to smallholders by 2015, which will put considerable pressure on independent growers. Certification that their palm fruit is grown under "sustainable" conditions (with growers adhering to a number of environmental and social criteria) is likely to be difficult and expensive for many independent smallholders (Levin 2012), but perhaps their output could be handled differently and considered more as a "boutique" or "organic" product. While methods and techniques employed elsewhere are not easily transferable, it is useful to explore alternatives. The chapter is based on a larger work involving a comparison of oil palm development in

Southeast Asia with that in selected countries of Latin America and West Africa.[1]

The chapter has four sections. It begins with a comparative overview of the global palm oil industry, with a brief look at the position of smallholders in several producing countries. The second section provides an in-depth analysis of the current situation in Indonesia (with shorter Malaysian comparisons). That is followed in section three by a focused discussion of three alternative pathways: the family agroforests of Cameroon; Ecuadorean smallholders and their mills; and the oil palm cooperatives of Costa Rica. The chapter ends with a general discussion and conclusion.

GENERAL OVERVIEW

As outlined in Chapter 2, the African oil palm (*Elaeis guineensis*) has experienced an enormous expansion in planted area over the past decade, especially in Indonesia and Malaysia, which together account for 87 per cent of world production.[2] The rate of increase has been particularly rapid in Indonesia, with production tripling between 2000 and 2010, enabling that country to overtake Malaysia in 2006 as the world's leading palm oil producer (Direktorat Jenderal Perkebunan 2010, Slette and Wiyono 2011). A combination of large land areas suitable for oil palm, cheap labour, government support for the industry at all levels, and a growing international demand for the multiple uses of palm oil has assisted Indonesia to achieve this supremacy.

Elsewhere in Southeast Asia and Oceania, a number of countries together make up 4.4 per cent of world production, with Thailand and Papua New Guinea being prominent (Table 5.1). The Thai industry is dominated by 120,000 small farmers (98 per cent of growers). Farmers (mainly in the south) have been paid to switch from rubber to oil palm, though many continue with a diversified production. Large numbers of mills compete for farmers' fresh fruit bunches (FFB) and also organize the hired labour on which most depend. A shortage of both labour and the product has led to a decline in standards as mills cannot afford to reject poor quality fruit (Kukeawkasem et al. 2011).[3]

The export-oriented industry in Papua New Guinea is confined to a few environmentally suitable locations with rather limited scope for expansion.[4] The plantations rely on smallholder production (40 per cent) to utilize their mill capacity, either from land settlement

schemes (6 ha blocks) or "Village Oil Palm" on customary land. The Oil Palm Industry Council (OPIC) works to improve smallholder output, initiating experiments in payment arrangements for smallholders, of which one (*Mama Lus Frut*) has been widely adopted. It encourages the participation of women in collecting loose palm fruit for which they receive separate payments from those of the men (Koczberski 2007).

Colombia is currently the most aggressive planter of oil palm in Latin America, with the large program being centered on biodiesel to serve mainly internal markets (Torres 2008, Mesa-Dishington 2009). It was earlier suggested that mandated levels of palm biodiesel mixed with imported diesel would rise to 20 per cent by 2012, but this has not happened, and even the revised date of 2020 may be too optimistic (Castiblanco et al. 2013). The use of oil palm as a substitute crop for coca, accompanied by extreme violence and population displacement, marred the industry in the past and still elicits polarized reactions from observers.[5] Despite high levels of government support, disease problems have also caused recent setbacks. Smallholders are mainly linked to existing plantations or mills in "strategic alliances". These have been criticized for unduly favouring the plantations, though some have genuine social imperatives. As in Indonesia, productivity of smallholders remains lower than that of estates.

Ecuador ranks second in Latin American production, much of it "smallholder friendly" (*see* below). However, expansion of the large estates into parts of the Pacific coast and Amazon has been accompanied by unacceptable deforestation. Brazil has an enormous area suitable for oil palm and has been predicted to become the world's largest producer (Stickler et al. 2007, Butler and Lawrence 2009), though the government is attempting to restrict the planted area (which currently is mainly in Para state in the Amazon) to already degraded land. Latin America accounts for five per cent of world production.

Central and West Africa is the home of the oil palm, wild variants of which have been used for centuries in family diets, local soap industries, and palm wine. Nigeria is the leader in production, with the Ivory Coast and Ghana being smaller players, all of which have large artisanal sections.[6] There have been several studies of the industry in Cameroon, particularly examining the role of smallholders (*see* below). The Democratic Republic of Congo dwarfs its Congo

Basin neighbours by its size and population (64 million). Although current production is small, there is scope for rapid expansion once conditions improve.[7] Most other Congo Basin states have artisanal oil palm and a few plantations, but currently produce at low levels. These trends may be reversed if new "land grab" initiatives by Malaysian and Chinese interests come to fruition.[8] West and Central Africa provide 3.7 per cent of global palm oil production.

As indicated in Table 5.1, yields of crude palm oil (CPO) from mature trees vary considerably, from over 4 tons per ha in Malaysia, Costa Rica, and now Indonesia, to just over 1 ton in parts of Africa. Malaysia has long had a scientific approach to its oil palm industry, sourcing new planting materials throughout the tropics and applying its research to both plantations and smallholders. Costa Rica has similarly had the benefit of its ASD Research Institute, which has provided high quality seed to local farmers and exported it worldwide.[9]

Table 5.1. Oil palm production, yield and mature area, major producers, 2012

Country	*Production (000 t CPO)*	*Yield (t CPO/ha)*	*Mature area (000 ha)*
Indonesia	26,900	4.14	6,500
Malaysia	18,785	4.31	4,360
Thailand	1,600	2.48	645
Colombia	967	3.22	300
Nigeria*	940	2.06	457
Ecuador	540	2.51	215
Papua New Guinea	530	3.71	143
Ghana	420	na	na
Ivory Coast	420	1.58	265
Honduras	395	3.59	110
Brazil	310	2.74	113
Guatemala	310	na	na
Costa Rica	260	4.13	63
Cameroon	245	1.98	124
Peru#	119	3.06	33

Source: *Oil World Annual 2013*.

* Nigeria: Commercial area and production only.

Peru: Ministerio de Agricultura 2012. na = data not available.

With the rapid expansion of plantation oil palm, this proportion of the industry that enters the global commodity chain has been critically scrutinized for its role in tropical deforestation, its destruction of faunal habitats, and engagement in "land grabs" and other abuses of local populations. Some receiving states, especially those in the European Union, are demanding guarantees that the palm oil that enters their factories is sourced sustainably from socially responsible plantations and not grown on recently deforested lands.[10]

The RSPO has been involved since its inception in 2004 in soliciting membership from all major actors along the commodity chain, in drawing up Principles and Criteria to improve plantation performance in a number of environmental and social areas (RSPO 2005)[11] and, most recently, in certifying those estates which meet the desired standard. Estates found to be in default may lose both financial support and market share,[12] so the organisation does have some "teeth", even though membership is optional. The RSPO has been described by some NGOs as "greenwashing" an unsustainable industry (DTE 2004, WRM 2009).

So far the membership among growers has been largely confined to Malaysia and Indonesia, with some representation from Papua New Guinea and Thailand and a few estates in Latin America. Until recently, only one firm, SIAT, with estates in Gabon, Nigeria and Ghana, represented the plantations in West and Central Africa, but others have now joined, such as two small firms in Cameroon (RSPO 2012b).[13] African countries are only marginally involved in the global trade in palm oil, so it is not surprising that few plantations have joined. However, Wilmar, an RSPO member, has recently established a branch in Nigeria, while both Sime Darby and Golden Veroleum (an offshoot of Golden Agri Resources, Sinar Mas) are planting oil palm in Liberia.

A high proportion of the global production of crude palm oil is intended for export, but in most producing countries, a percentage is absorbed by the local population (Table 5.2). Papua New Guinea is the exception. The major estate group, NBPOL, already certified by the RSPO, is focused on also certifying its smallholders. With its own British refinery (opened in 2010) dedicated to "segregated, traceable, certified sustainable palm oil" (RSPO 2011: 10), it has a large share of the world's certified palm oil and products (Orrell 2011).

Table 5.2. Percentage of crude palm oil (CPO) exported or consumed locally, selected countries

Country	*Percentage exported*	*Percentage consumed locally*
Indonesia	70.0	30.0
Malaysia	90.6	9.4
Thailand	28.2	71.8
Papua New Guinea	98.1	1.9
Colombia	17.7	82.3*
Ecuador	51.5	48.5
Costa Rica	62.2	37.8
Cameroon	11.6	88.4#
Nigeria	0	100.0#
Brazil	12.7	87.3*
Peru	0	100.0

Source: Indexmundi (www.indexmundi.com).

* Much as biodiesel.

Used as red cooking oil or soap, often with traditional processing.

Despite quality problems, the Thai industry has been declared ready for sustainable palm oil production as its National Interpretation of the RSPO Principles and Criteria has been accepted.[14] Colombia is in a similar position.

The RSPO-led push for certification of large estates in compliance with a range of Principles and Criteria has raised questions concerning the applicability of these standards to smallholders (very relevant in the Papuan New Guinea and Thai cases). The possibilities of certifying smallholder production are actively being examined, particularly "independent" smallholders (neither tied to nor assisted by estates). Certifying independent smallholders in groups has been suggested and a few Indonesian NGOs are experimenting with this challenge. The Dutch NGO, Solidaridad, working with Indonesia's biggest credit union, Keling Kumang, runs farmer field schools in West Kalimantan on aspects of oil palm production, while an Australian/Indonesian NGO, World Education, is helping improve their business skills (Solidaridad 2013). The first Indonesian group of independent smallholders to achieve certification (in Riau, Sumatra in August 2013) had been assisted by the plantation group Asian Agri, Unilever, and the World Wide Fund for Nature (WWF) (Gunawan 2013).

The second South American regional meeting of the RSPO in Quito (April 2012) resulted in more interest in certifying smallholders in export-oriented countries such as Ecuador. One group in Ecuador, Natural Habitats, which is entirely organic in its production practices and keeps its processing carefully segregated, was certified in August 2013, together with its associated smallholders. This is the first group of smallholders to be certified in Ecuador and the only group to be "organic, fair for life and RSPO certified worldwide" (Natural Habitats 2013).

OIL PALM SMALLHOLDERS IN INDONESIA, WITH MALAYSIAN COMPARISONS

Assisted (or Scheme) Smallholders (Petani Sawit Plasma)

As described in Chapter 3, the original nucleus estate and smallholder scheme (NES or PIR, *Perkebunan Inti Rakyat*) consisted of an estate core (*inti*) surrounded by a ring of smallholder outgrowers (*plasma*), each provided with credit, recommended supplies of fertiliser, a first year's salary, and technical advice. The smallholders would work on the (government) estate until their trees began bearing (three to four years) then repay their credit from the proceeds of selling their FFB to the estate mill. Such schemes were originally developed for rubber, but soon began to include oil palm, similar to their FELDA counterparts in Malaysia (Chapter 2). However, not all government-run estates had a smallholder component. Meanwhile, expansion was taking place in new locations outside the plantation belt of North Sumatra/Aceh, with the first estate established in Kalimantan in 1979.

Although the intention had been to use transmigrants (largely from Java) as the source of most estate labour, authorities were occasionally persuaded to employ local smallholders, as in Parindu, Sanggau district, West Kalimantan. Local leaders argued that there was not enough land to introduce transmigrants, with plenty of village labour being available (Forest Peoples Program 2005). Each family involved gave up 5 ha and received a house and an already planted allotment (*kapling*) of 2–3 ha. Fieldwork in 1997 (15 years after the first planting) revealed an interesting accommodation by the smallholders. Most farmers still had sufficient land to continue tapping rubber and growing rice in swiddens. Their oil palm yields gradually declined with

increasing age of the trees,[15] so they re-directed the estate's fertiliser to their rice fields. Instead of an intensively developed plot of oil palm, they were reverting to a "typically extensive semi-traditional livelihood system" (Potter and Lee 1998: 25).

This system was not economical for the government estates as managers struggled to obtain sufficient fruit to keep their factories at full capacity. A World Bank report (1989) urged that more private estates be encouraged, with labour supplied by transmigrant smallholders. As the industry developed during the 1990s and large numbers of private estates were established,[16] arrangements were tightened and the *inti*/plasma ratio was changed.

Under KKPA schemes, instituted in the mid-1990s, the ratio was 40:60, with 40 per cent for the estate and 60 per cent for smallholders, with smallholders giving up 7.5 ha, and receiving in exchange 2 ha of planted land, while the actual financing was handled by a cooperative using bank credit. In 2001, the withdrawal of the central government went a step further with Indonesian decentralisation such that the district was directly involved in securing land for the plantation[17] and persuading villagers to accept the scheme. Fieldwork in 2002 and 2007 on a Malaysian-owned plantation (PT Sime Indo Agro [SIA]), again in Sanggau district, indicated that Dayak smallholders had refused to give up the 7.5 ha demanded, most keeping up to half of their land for other activities. They were in a good position by 2007, as high palm oil prices enabled many to pay off their estate debts. Some used their profits from oil palm to diversify part of their holding into cloned rubber. Many were still managing to retain a mixed agricultural system, with small plots of dry rice as well as areas of *tembawang* or mixed orchards (Potter and Badcock 2007, Potter 2009). PT SIA is now regarded as having been cooperative and flexible, unlike most other plantations in the district (Gillespie 2010).

Since 1999, the Indonesian government has been attempting to assist the plantations with further guarantees of land availability and length of tenure. The Plantations Law of 2004 (No. 18/2004) granted a plantation lease initially for 35 years; it could be extended for another 25 years, and subsequently a possible additional 35 years.[18] A further law (on investments, No. 25/2007) changed the initial plantation lease time to 60 years with the possibility of further extension.[19] The timing was expressly designed to grant plantation companies a secure investment for at least two production cycles. Legislation by

the Minister of Agriculture in 2007 introduced a minimum estate/smallholder ratio of 80:20 (that is, 80 per cent of the land going to the nucleus and only 20 per cent for smallholders).[20] Most schemes still operate under earlier conditions, but new plantations have moved to these more recent "partnership" (*kemitraan*) arrangements, which are more difficult for villagers to manage. A plantation in the north of Sanggau near the Sarawak border (PT Global Kalimantan Makmur [GKM]) uses the 80:20 model, providing a monthly payment to farmers depending on the amount of land they have surrendered, but controlling and running the entire area (Zen et al. 2008).[21] Unsure of their rights under these new arrangements, smallholders are disadvantaged by this system (Gillespie 2010, 2011).

Table 5.3, based on oil palm planted area in the various islands, illustrates the greater share occupied by smallholders in Sumatra, compared with the land under government or private estates. In fact, 81 per cent of all land occupied by Indonesian oil palm smallholders is in Sumatra. In 2010, that land was owned by 1.3 million households across Sumatra, with 379,000 of them in Riau province (Direktorat Jenderal Perkebunan 2010). Kalimantan has a far smaller area owned by smallholders, varying from 35 per cent in West Kalimantan to 10 per cent in Central Kalimantan, with more land in private estates, while Sulawesi and Papua are in an intermediate position, with a greater role for government estates and a moderate share for smallholders. Estates without smallholders hire labourers on contract, generally from Java, and are perceived as less concerned with the welfare of local populations.

Table 5.3. Oil palm planted area in Indonesia by region and ownership, 2010

Region	*Smallholders*		*Government estates*		*Private estates**		*Total*
	ha	*per cent*	*ha*	*per cent*	*ha*	*per cent*	*ha*
Sumatra	2,493,894	47.2	515,811	9.7	2,275,601	43.1	5,285,306
Kalimantan	470,792	19.2	63,419	2.6	1,852,314	78.2	2,450,042
Sulawesi/ Papua	105,909	38.7	40,940	15.0	106,038	46.3	273,412
Java	7,033	25.4	17,316	62.6	3,322	12.0	27,671
Indonesia	3,077,628	39.4	637,486	8.2	4,321,317	52.4	8,036,431

*Both foreign and national investors. Calculated from Direktorat Jenderal Perkebunan (2010).

In Malaysia, previous schemes for "government assisted" or "organized" smallholders such as the FELDA program, have in recent years not been popular with local farmers and have turned themselves into plantation enterprises worked by primarily Indonesian immigrants (Chapters 2 and 6). A different kind of scheme, development "in situ" rather than resettlement, has been more acceptable, both on the peninsula (FELCRA) and in Sarawak (SALCRA). Village land is developed by the government agency, with the farmers repaying the cost through the profits from their FFB. The growers eventually have their land returned with secure titles, but most of the labour is now supplied by Indonesians. Another government-initiated scheme, *Konsep Baru* (New Concept), which involves joint-venture arrangements on customary land, began in Sarawak in 1995. Lands under customary tenure regarded as "idle" were to be turned into oil palm plantations on a joint-venture basis, with the company receiving 60 per cent of the profit and the local landowners, 30 per cent. Leases were for 60 years, or two production cycles (Majid-Cooke 2006). Although 22 projects existed in 2006, none had issued promised dividends to the landholders, leading in 2008 to protests and blockades (McCarthy and Cramb 2009). As Cramb has pointed out, "the main game has been to facilitate the transfer of land to the rapidly expanding plantation sector, which accounts for nearly 80 per cent of the oil palm area" (2011: 290). New "agropolitan" developments in Sabah seem to be now heading in the same direction (Majid-Cooke 2012), the aim being to open up customary land areas for plantation development.

Independent Smallholders (Petani Sawit Swadaya)

The Association of Oil Palm Farmers (SPKS), quoting 2005 figures, claimed that the area of oil palm planted by independent smallholders was slightly higher than that of assisted farmers—with 975,910 ha of *swadaya* to 941,127 ha of *plasma* (SPKS 2009). While they are present in all of the oil palm districts, the highest concentrations of independent smallholders are in Riau, Jambi, and North Sumatra, where there are already many mills and well-developed road transportation (Figure 5.1). Many are Javanese second generation transmigrants. Others, especially in Riau, are Batak migrants from North Sumatra who sold their rubber gardens to buy the more extensive lands available in Riau to plant oil palm (Potter and Badcock 2004). One news

Figure 5.1. Weighing smallholder harvest in Riau, Sumatra (Photo: Lesley M. Potter)

report suggests that independent smallholders grow more than 51 per cent of the 2.2 million ha of oil palm in Riau, which is Indonesia's leader in oil palm cultivation.[22]

Independent smallholders are an important group whose needs are sometimes overlooked. These small farmers contract to sell their FFB to particular mills: there are 28 mills out of the total of 138 in Riau that are "stand alone", but large plantations may also receive fruit from independent smallholders. However, the latter had serious problems in 2008 when the price of FFB dropped catastrophically as a result of the global financial crisis (Potter 2010). While the assisted smallholders could still receive IDR 400–500/kg at the mill, the independent smallholders had to pay higher transport costs from their more distant villages and it took longer for their fruit to arrive at the mill, by which time its quality had deteriorated.[23]

Independent smallholders may have more difficulty in securing certified oil palm seed (often being cheated by purveyors of cheap but

low-yielding planting materials).[24] They also have problems in obtaining fertiliser and therefore produce lower yields than those assisted by estates. It is suggested that 76 per cent have yields below 12 tons/ha, which will make it very difficult for them to be certified by the new Indonesian Sustainable Palm Oil (ISPO) standard.[25] On the other hand, they may have access to rather more land and be able to practise mixed cropping,

The Setara Foundation, an NGO, has been working with a group of Jambi farmers since 2005 to prepare them for RSPO certification. The emphasis has been on information transfer, with a focus on understanding the certification process, organizing themselves into groups, and conducting technical training for yield improvement. Development of RSPO-certified milling is also required, with more mills giving preferential access to independent farmers (Rofiq 2009). As this group has not established their farms in forested areas, it has been suggested that they might secure a special certificate for organic or environmentally friendly palm oil, especially in the early years of cultivation.

Most of the oil palm grown by Indonesian smallholders has not been a direct cause of deforestation as they are developed in a village environment of orchards, old rubber groves, and swidden fallows. Smallholders tend to use fertiliser sparingly, often are unable to access subsidized supplies that are monopolized by larger plantations, and they use cheap seeds. In considering the question of certification of smallholders, especially independent smallholders, there would seem to be two basic approaches: either bring their conditions and yields up to a similar level to those of the estates (which is likely to require considerable investment), or treat them differently, with an emphasis on organic palm oil produced in a diversified landscape. Koh et al. (2009) suggest ways of designing landscapes so that forest land is "spared" by maximizing yields on existing oil palm plantations, while smallholders enjoy a mixed cultivation of diverse agroforests (including oil palm) in a landscape mosaic, making it easier for them to be certified as sustainable in order to gain special organic status and hence, a higher price.

Compared with Indonesia, Malaysia has much less land under the control of independent smallholders (mainly in Sabah, Johor and Perak), though the area under independent smallholdings has been growing rapidly in the past 10–15 years. There are similarities between the groups in the two countries in that smallholder yields are lower

than estate yields, but Malaysian independent growers have better access to high-quality planting materials and, at least in Sabah, they received government assistance during the period of low prices in 2008–09.[26]

INTERNATIONAL SMALLHOLDER PATHWAYS

Cameroon

Within Cameroon, the area naturally suited to oil palm (where the tree often grows wild) occupies the southern 53 per cent of the country, with cultivated palms confined mainly in the high-rainfall, low-altitude lands of the central coast and southwest (Bakoume and Abdullah 2005). While "tied" smallholders linked to estate mills have been in place since the late 1970s, their numbers have fluctuated with the availability of credit, from the FONADER rural bank (which closed in 1990) to more recent donors.[27] A common pattern has been the buying up of village lands by local elites and urban dwellers with alternative funding sources. Many of the new growers already owned a press and so would bypass the plantations mills and prepare their own oil, although extraction rates were lower (Hirsch 2000). By 2002, the smallholder area was estimated at 43,300 ha (Bakoume and Abdullah 2005), with smallholder production almost twice that of the estates with a total CPO output of 140,000 tons (Cheyns and Rafflegeau 2005, Montfort 2005).

The last decade has seen expansion of all sections of the industry, with the government aiming to lift production to 250,000 tons of CPO by 2010. There has been a strong growth in local demand while the "biofuel boom" has stimulated the existing plantations to expand their holdings and replant aged stock.[28] A World Bank loan assisted a program to lift agricultural competitiveness of smallholders in the central area (Republique du Cameroun 2009) and more centres supplying certified Tenera seed have been developed.

Recent figures show the government close to achieving its goal, with production for 2010 at around 230,000 tons of CPO, of which 120,000 tons came from plantations (58,860 ha), 30,000 tons from assisted smallholders (35,000 ha), and approximately 80,000 tons from independent smallholders (with an estimated area of 100,000 ha). Yields of CPO remain low at 2.3 tons per year from the plantations

and 0.8 tons per year from smallholders (Ministry of Agriculture and Rural Development, cited in Hoyle and Levang 2012: 5).

While the tied smallholder system introduced new ways of handling a familiar tree, it was also the source of tension between estate production standards and family farm logic, which favoured diversification and reduced input costs (Cheyns and Rafflegeau 2005). For example, the SOCAPALM plantation management was initially very strict with its participating farmers about the use of selected seeds, the number of trees in a plot (143); the use of fertiliser, and the sowing of a leguminous cover crop (*Pueraria javanica*) (Rafflegeau 2008). In the Eseka plantation, the failure of the farmers to repay credit advanced to them by the company, together with the advanced age of the trees, led SOCAPALM to hand over the plantation to the farmers, though they retained the mill to receive their fruit.

Most interesting is the nature and profitability of independent village oil palm, or oil palm agroforests. Though mixed systems are less productive, they are based on the logic of security, geared towards the profitability of the farm as a whole and the minimisation of risks. As oil palm makes it possible to maintain an almost daily income, it has been described as "a crop that reassures farmers" (Cheyns and Rafflegeau 2005:115).

Juvenile oil palms are intercropped with food crops such as plantain, cocoyam, peanut or cassava. While cassava decreases oil yields, it may be sold, hence increasing income. In our field studies in Mbongo in January 2011, we saw cassava being planted between the rows of palms and were informed that the cultivation belonged to the farmer's wife, who also planted vegetables and maize. Almost all of these crops were consumed by the household, with only small amounts being sold. Bamenda people who were hired as workers were also permitted to plant between the rows and, in this case, the worker's wife had planted peanuts.

Farmers will sell some of their FFB to small-scale processors (Figure 5.2), use it for their own consumption or will tap some of the palms for palm wine, with this last strategy enabling young farmers without capital to get started. More than half the growers do not use fertilisers until they reach their target palm area, after which they sometimes farm more intensively (Cheyns and Rafflegeau 2005: 116). Many villagers would begin with 1 ha of palms, then gradually add more, 1 ha per year, until they had 10–12 ha in production.

Figure 5.2. Medium-scale traditional mill, Littoral Division, Cameroon (Photo: Lesley M. Potter)

Growing village oil palm is not traditional for all ethnic groups. It is common among the Bassa people between Douala and Edea, including Mbongo, but less often found among the Mabi people of Kribi in the south. Growers there had been influenced by the nearby SOCAPALM plantation. In the far southwest region of Mundemba, smallholders tended to be organised in cooperatives headed by local chiefs or smaller "common initiative groups". While some brought their fruit to the Pamol plantations, there were many small mills and also much stealing of fruit from the estates.[29]

A sophisticated analysis of 38 plots in traditional agroforestry systems within the rainforest zone of the Southwest described the roughly 1 ha plots as permanently occupied (no fallow) in which three main perennials—cocoa, rubber or oil palm—were integrated with food crops and native trees (Rodrigues et al. 2009, Table 5.4). Among the plots, 18 grew cocoa (8 immature, 10 producing), 13 grew oil palm (6 immature, 7 producing) and 7 grew rubber (4 immature, 3 producing). Of interest was the extremely packed nature of the immature

Table 5.4. Comparative analysis of agroforestry plots, SW Cameroon

Characteristics	*Cocoa*		*Oil palm*		*Rubber*	
	Immature	*Producing*	*Immature*	*Producing*	*Immature*	*Producing*
Plot size (ha)	1.1	1.3	0.8	1.1	1.2	1.6
% under main crop	44	56	46	54	60	40
Plants/ha main crop	1,700	1,228	223	206	815	820
Associated annuals	*	*	*	*	*	*
Plants/ha plantain	1,742	257	573	228	220	0
Plants/ha cassava	470	450	10,450	7,800	6,630	1,280
Plants/ha cocoyam	1,745	1,773	3,300	7,000	20	0
Plants/ha maize	10,430	0	3,130	3,000	17,640	0
No. volunteer trees	8	9	12	3	5	13
Plot mean gross income (USD/ha/yr)	804	780	639	1,122	967	800
Plot mean net income (USD/ha/yr)	368	565	224	731	657	688
% income spent on pesticides	3.8	18.1	0	0	6.5	13.6
% income spent on other inputs	50.6	1.1	55.7	1.9	3.5	6.4
% subsistence income	39.1	8.8	62.0	15.0.	18.2	5.2

Source: Rodrigues et al. (2009). Exchange rate 527.3 fefa = 1 USD (1 December 2008).

*Associated annuals very varied.

plots, which continued, though somewhat reduced, when cocoa and oil palm trees were producing. Rubber trees tolerated much less competition. Comparative gross and net incomes were provided for plots under each of the three perennials, together with expenditure on inputs. Oil palm plots had the lowest income during the immature stage, but highest once they were producing. The main expenditure on inputs was the purchase of high quality Tenera seedlings. The oil palm plots also had the highest proportion of subsistence income while the crop was immature, reiterating the importance of the associated food crops in sustaining the household during that period. The authors concluded that the farming systems could still be improved with the addition of nitrogen-fixing legumes, though the high density of plants kept weeds under control (Rodrigues et al. 2009).

Family farmers, though absent from the RSPO, could benefit from the expansion of smallholder certification governing access to certain markets. Many of these farmers could qualify as producers of "organic" palm oil and products, allowing a niche industry to be

established that could benefit producers through higher prices. However, marketing chains would need to be set up, in a similar way to the fair trade system for coffee or cocoa.

Ecuador

Ecuador's geography to a considerable extent determines where oil palm will be grown. In the west lie the Pacific coastal plain (Costa) and lower Andean foothills; in the centre, the Andean mountain chain (Sierra); and in the east, the extensive forested lowlands of the Amazon basin (Oriente). The first oil palm plantings began in the 1950s in the Costa, especially in Santo Domingo–La Concordia, later in Quevedo and Quininde. Parts of the Amazon were opened up in the 1970s and the far northern Pacific coast, known as San Lorenzo, followed in the late 1990s. Discussion here will be confined to the Costa, between Quininde and Quevedo, the "Bloque occidental".

Rainfall decreases from north to south, thus Quevedo often suffers from rainfall deficits and lower yields as few smallholders use irrigation. Santo Domingo, at an elevation of 900 metres, is too cloudy and cool for maximum production, though its fertile volcanic ash soils, extending also into the Quevedo area, provide an offset. The best area is in the north, between Quininde and La Concordia, which in 2005 accounted for 83 per cent of the total oil palm area, with 1,900 growers.[30] Most oil palm holdings were established on existing farm lands so deforestation was not an issue.

The bulk of growers are smallholders (87 per cent with less than 50 ha of oil palm and 42 per cent with 1–10 ha) (Table 5.5). However, discussions with farmers revealed that most cultivated other crops in addition to oil palm. They were thus "smallholders" as far as their area and production of oil palm was concerned, but many did not fit the "smallholder" category in terms of their total land holding. It may be partly because of their mixed cultivation that many have low oil palm yields, the plantings considered as fundamentally "social" and only semi-commercial.[31]

There are 47 mills engaged in first-stage processing, of which 40 are located between Quininde and Quevedo, three each in the "frontier" areas of San Lorenzo and the Amazon and one in the Guayas valley near Guayaquil. The three largest belong to companies in the Amazon, but mills in the Occidental Block have increased in both size and efficiency in recent years, having earlier been accused of

Table 5.5. Stratification by cultivated area of oil palm in Ecuador, 2010

Range (ha)	*Total area (ha)*	*% of total area*	*Number of producers*	*% of producers*	*Size category*
1–10	16,589	7.0	2,507	42	
11–20	21,610	9.0	1,266	21	Small (87%)
21–50	56,827	24.0	1,452	24	
51–100	44,904	19.0	504	8	
101–200	36,061	15.0	192	3	Medium (12%)
201–500	20,580	9.0	55	1	
501–999	13,063	5.0	15	0	Large (1%)
1,000 +	30,366	13.0	9	0	
Total	240,000	100.0	6,000	100.0	100.0

Source: ANCUPA (2011)

polluting local environments with their effluents (Acuna 2004).[32] The oldest and largest (3,000 ha) plantation and mill, near Quininde, is Palmeras de los Andes, established in 1974 when the region was being settled and new forest clearing was still taking place (World Bank 1981). Several more mills were established in the 1990s, and one as late as 2009, while leading company La Fabril[33] was constructing a large new mill in 2011 very close to that of a competitor.[34]

Some other mills have their own plantations, varying between 40 and 1,500 ha, but many do not, being entirely dependent on the fruit they receive from surrounding smallholders. In an area known as Paraiso, away from the main road between Santo Domingo and Quevedo, the Agroparaiso mill with large numbers of smallholders has only a demonstration plot of 5 ha. The mill had been promoting organic farming, but recently needed to use chemicals for pest control.[35]

One striking feature was the strong competition existing among the mills. All stated that they gave special treatment to their suppliers, providing them with interest-free credit, the opportunity to buy certified seeds, and personalized technical advice. The mills in close proximity to La Fabril's new plant were concerned because that company was said to pay more for smallholders' fruit, and they could foresee some erosion of their suppliers.[36] Most mills were working below capacity. One was very small, with a capacity of only 15 tons per hour

and just 20 suppliers, but it was also long established, confident in the loyalty of its farmers. Another interesting feature was the number of "weigh stations" which a few firms had set up across the region. Smallholders were encouraged to take their fruit to these depots and it would then be transferred at company expense to the main mill. This was a technique to "lure" more distant suppliers away from competitors. All smallholders we interviewed seemed happy with their chosen mill and singled out their good treatment, although their product was not always of high quality.[37]

One good aspect of the Ecuadorean system with its many mills was its flexibility. Smallholders could compare treatments from competing mills and it appears that they were able to switch if they wished. Their other advantage was the ability to change crops, as they had a number of choices in managing their lands. However, like growers elsewhere, they were affected by the collapse in palm oil prices in late 2008 and early 2009. In January 2009, one of the EPACEM mills in Santo Domingo, which processed fruit for a hundred growers, was paying USD 90.10 per ton for the best quality and USD 63.70 for green or poor quality fruit, whereas a few months earlier the best quality fruit had brought in USD 200 per ton.

Smallholders in Quininde are generally increasing the proportion of oil palm in their holdings, but production has been decreasing further south, as growers have realized that the area is suboptimal for oil palm. They were moving back into cocoa or plantations of balsa wood. Some plantations, citing declining yields in the older areas, had established holdings in San Lorenzo, while retaining their mills and smallholders in the Occidental Block.

While land in San Lorenzo was cheaper and climatic conditions were suitable, this move was at the expense of considerable forest areas in addition to pressures on Afro-Ecuadorean and indigenous Awa inhabitants to sell parts of their lands, which provoked a storm of criticism.[38] In the last five years, bud rot (*Phytophera palmivora, Pudricion de Cogollo*) has wiped out 5,000 ha in San Lorenzo, forcing growers to replant with a hybrid of the African palm (*Elaeis guineensis*) and its South American counterpart (*Elaeis oleifera*), which is resistant to the disease. There are few smallholders in San Lorenzo, though there is a cluster of tied smallholders near the Amazon town of Shushufindi, sending their fruit to the mill of Palmeras del Ecuador, which has a plantation there of 8,000–10,000 ha.

Costa Rica

In Costa Rica oil palm ranks well below bananas and pineapples as an agricultural crop, although there are plans for expansion. Production of palm oil is low, though yields are among the world's best, often outclassing Malaysia. The country provides an interesting comparison between modes of producing palm oil, with one large private estate group, several farmer cooperatives, and an increasing number of independent growers. It is the cooperatives that are of most interest here (Figure 5.3).

Oil palm was introduced in 1944 by the United Fruit Company as a successful substitute for a diseased banana plantation near Quepos on the Central Pacific coast. Almost all the oil palm in Costa Rica is still found along this coast, in the Central (Quepos) and Southern

Figure 5.3. Red macaw among the oil palm, El Silencio Cooperative, Pacific Coast, Costa Rica (Photo: Lesley M. Potter)

regions, the latter being subdivided into Palmar-Rio Claro and Coto-Laurel, though there has been a recent extension to the Atlantic or Caribbean coast. The coastal plain north and south of Quepos is narrow and hence, the area suitable for oil palm is restricted to small river valleys vulnerable to flooding. The southern region (Zona Sur) as far as the Panama border is more extensive and remote. It was thinly populated when the United Fruit Company shifted its banana business there in 1938, when it established its headquarters in tiny Golfito. By 1955, the company had more than 200,000 ha (Lopez 2009) and Golfito was a bustling port with a 246 km rail link to the producing areas. The conversion to oil palm began in the 1970s, with the company finally withdrawing in 1984 but retaining its Coto oil palm estate (named Palmatica) and seed centre (ASD). One plantation (Palmatica) remains, with three locations—Quepos, Coto, and a newer site at Puerto Jimenez on the Osa peninsula. It now belongs to a group of four companies, which include the seed centre, a refining plant in San Jose city, and a marketing and export firm. Between 1997 and 2000 Palmatica's new owners engaged in extensive renovation, replacing old trees with new compact stock, so the plantations should still be yielding well (Escobar and Peralta 2006).

In Quepos, the two old plantation mills also process fruit for surrounding private growers and three cooperatives. Palmatica's monopoly status has recently been challenged by a large mill across the Panama border, which has aggressively sought to buy fruit from Costa Rican cooperatives and independent growers.[39]

Throughout the 1970s and 1980s, as the banana company gradually relinquished its holdings, the lands were redistributed by the Agrarian Development Institute (IDA), which had been founded by the government in 1961 to redistribute large tracts of plantation land to small farmers. Ex-plantation workers and landless farmers, previously jailed for squatting on underused company land, were encouraged to form agricultural cooperatives. They were given individual titles to 10 ha plots so they could borrow from local banks. The cooperative members eventually tried oil palm after experimenting unsuccessfully with a range of food and cash crops. The soil had been contaminated by the heavy application of Bordeaux mixture, a fungicide to control the banana disease Sigatoka. Oil palm was one of the few crops that could survive such a toxic environment (Marquardt 2002).

The largest of the cooperatives, Agropal, was established in 1986 near the Panama border. A parcel of 28,000 ha had been distributed to former banana workers and landless peasants, but the drainage systems and roads were in disrepair. The International Development Association (IDA), with assistance from the Inter-American Development Bank (IDB), selected 13,000 ha for rehabilitation. Oil palm was planted on 3,900 ha and an extraction mill set up, which began producing CPO in 1993. In 1999, the cooperative had grown from 60 members to 435 and had almost 6,000 ha under oil palm (Constance 1999). In 2011, there were 600 members, each with 10 ha of oil palm,[40] and 800 ha in a central plantation. Its mill, with a capacity of 45 tons per hour, also crushes the fruit for 100 independent growers and supplies credit, fertiliser at low cost, as well as agronomic advice.

A further small mill (15 tons per hour) in the Osa peninsula was organized by a consortium of 20 farmers and built in 1999 with help from local banks. It initially did not receive enough fruit and had to close, but in 2007, with high prices for palm oil, the government decided to reactivate it with assistance from Agropal, which has been operating it for ten years. Another small new mill (12 tons per hour) was set up in 2010 at the request of independent growers, who were switching from rice and cattle to oil palm. It was suggested that there were 2,500 smallholder families, both in cooperatives and independent, growing oil palm in the southern zone (MIPRO 2007).

The cooperative is a hub of development and employment for the surrounding community, maintaining all essential services (including roads, drains and bridges, electricity, water supply, and health facilities), as the banana company had done before. The main social target was improving living conditions and training the members in organisation and management, together with technology transfer. Farmer committees participated in all aspects of decision making, such as the establishment of a refining plant for processing CPO into cooking oil and margarine, with these products both sold locally and exported. Despite good management, it could not prevent a serious economic downturn during the period of low palm oil prices of 2008–09, when many growers were forced to sell their houses.

Smaller cooperatives, while still dependent on the mills operated by larger enterprises, have been able to diversify into other activities and experiment with more sustainable palm oil production practices.

Five of the smaller cooperatives scattered through the south and central zones are now experimenting with a more diversified ecological model, moving away from oil palm monocultures to produce a variety of organic fruits and vegetables, poultry, pork and beef. The project was funded by the Swedish Centre for Cooperatives and the National Federation of Agricultural Cooperatives and Self-Management (FECOOPA), with its second stage completed in 2009. One of these cooperatives (Coopevaquita) has an industry making cassava and banana chips for export (employing mainly women) and runs a biodiesel plant from the waste oils for use in its own vehicles.

Coopesilencio, one of the oldest cooperatives, has tree plantations and a small sawmill, a wildlife rescue and rehabilitation centre, and an ecotourism project. The manager of Coopesilencio explained that its main source of income was the oil palm plantation (530 ha, each family owning 10 ha), which was worked cooperatively by a number of the men, who also handled the tree plantations. The chickens were the responsibility of the women, who sold eggs and meat, while the other animals were cared for largely by foreign volunteers, who were housed by families in the village, staying for periods of a few weeks at a time. Ecotourism was organised in conjunction with local travel experts in Quepos. Several cottages and a restaurant on the site were also run by the women. El Silencio is located in a scenic area between the mountains and the sea, so it is able to attract passing tourists as they travel along the new highway to the south (Figure 5.3).

Cooperative members are also involved in a biological control program for oil palm pests and diseases—planting shrubs and flowers that attract predators along the field edges to cut their use of pesticides. These cooperatives provide a model of inclusion, involving all family members in decision making and bringing local universities on site for technical advice.[41]

CONCLUSION

The "alternative pathways" suggested above were chosen to highlight three possible improvements to independent smallholder systems as found in Indonesia: (1) mixed cultivation of oil palm and other crops without necessarily striving for the highest yields (Cameroon, Ecuador); (2) increased numbers of small competing mills that would supply

inputs and extension services to independent smallholders (Ecuador) or be specifically designed to serve local markets for cooking oil or soap (Cameroon); and (3) a widening of the roles of Indonesian cooperatives to engage in alternative economic activities (such as raising of small animals, organic vegetables, or ecotourism) with freehold tenure of oil palm plots for cooperative members (Costa Rica). While these examples are grounded in their host country's history and political and economic circumstances, they nevertheless contain elements that could be transferable.

Some of these elements already partially exist among Indonesian independent smallholders. For example, *tumpangsari*, or planting annual crops such as corn together with juvenile oil palms, exists in Rokan Hulu, Riau. Similarly, there are independent mills that handle smallholders' fruit. But neither of these approaches seems to be widespread, and both are explicitly rejected by the plantation companies. Cooperatives are also familiar to Indonesian smallholders, but their function is much more limited than those in Costa Rica. They were set up to handle the financial arrangements between estates and their "tied" smallholders, but genuine democratic and cooperative management of an oil palm property among a group of smallholders is quite rare, as is the ability of the cooperative to branch out into a number of other economic enterprises. With the process of certification of independent smallholders currently under study, it is important that alternatives to the present system also be considered, especially under the compulsory ISPO certification. The ISPO appears to be rather inflexible, disadvantaging independent smallholders, unless the current constraints under which they operate (shortage of subsidized fertiliser and cheaper certified seeds) can be removed. Alternative approaches should also include ways of certifying groups of "organic" growers, in a similar manner as specialist groups of Arabica coffee growers are certified in Aceh and Sulawesi.

NOTES

1. An original report submitted to CIFOR (Center for International Forestry Research) in March 2010, was subsequently improved by fieldwork in Colombia, Ecuador, Costa Rica and Cameroon during 2011. A large literature survey on oil palm has just been completed for CIFOR, updating the original information and adding Nigeria, Brazil and Peru to the database (Potter 2015).

2. The percentages listed are calculated from Indexmundi, which has higher figures for Indonesia than *Oil World* and generally lower figures for Africa.
3. The Univanich group, with four plantations, three factories, and an oil palm research centre, has 6,200 ha of its own and 4,000 smallholders planting 40,000 ha. As the factories have expanded their proportion of purchased fruit, their oil extraction rates have dropped from above 20 per cent to below 16 per cent (Univanich 2011).
4. "Special agricultural and business leases" have recently been granted to private companies, several of them foreign. The areas are large (more than 5 million ha), with a number ostensibly for oil palm. Known as "agro-forestry projects", most are sited in forest areas and are expected to involve timber extraction, with doubtful agricultural prospects but wide-scale deforestation the likely result (Filer 2012: 600). The agroforestry projects are believed to pose a serious risk "to the palm oil industry's reputation and market position" (Orrell 2011: 9).
5. There are accusations that oil palm plantations are on "stolen ground" and some border areas, such as Catatumbo in the central zone, are still contested. The Santos government has promised to restore lands to their original owners, but this is a complex problem (Tenthoff and Eventon 2013). New plantings are focussed on the Orinoquia savannas in the east, mainly on former cattle ranches.
6. About 79 per cent of Ghana's production is from artisanal smallholders (Ghana, Ministry of Food and Agriculture 2011).
7. The purported Chinese agreement in the DRC in 2007 to plant 3 million ha to oil palm was scaled back in 2009 to 1 million ha (Awicaksono 2009) and may in fact be much less, if it happens at all (Brautigam 2010). However, land grabs are certainly taking place in other parts of the Congo Basin. In Cameroon, Herakles Farms is already established amid much controversy and international condemnation, while a number of other foreign companies are actively seeking land to plant oil palm (Hoyle and Levang 2012). *See also* the 2013 report from The Rainforest Foundation, *The Seeds of Destruction*, for examples from the Republic of Congo and Gabon.
8. Anseeuw et al. (2011), in a comprehensive study of land grabs, identify Africa as the main target.
9. In Costa Rica, both the plantation and the larger cooperatives make use of "compact" trees, a hybrid of the African and South American species (*Elaeis guineensis* and *Elaeis oleifera*), which enables more trees to be planted per hectare.
10. The tariff structures of many importing states indicate a clear preference for the raw product (CPO), for manufacture outside the producing countries. Indonesia's move to increase taxes for CPO and reduce those for

refined products is an attempt to encourage local refining. It has already had an impact on refining industries in Malaysia, India, and Europe (Nilukse Koswanage, Dutch unhappy with Indonesia palm tax move, Reuters, 30 Nov. 2011).

11. Most important (and difficult) is identifying areas of High Conservation Value (HCV) in a landscape, values which are important for both people and nature, and securing Free, Prior and Informed Consent (FPIC) from villagers for plantation development (Nevin 2012: 13).
12. The case of the Sinar Mas estates in Indonesia is an interesting example, with Greenpeace accusing the group of illegal land clearing in Kalimantan. Unilever, Nestle and Burger King suspended purchases from Sinar Mas estates until the position was clarified (Greenpeace 2009). The suspension was later lifted. Arbitration on the case of the Singaporean Wilmar group led to the withdrawal of the International Finance Corporation (the investment arm of the World Bank) from further funding of oil palm until safeguards were developed to ensure that the industry did not cause social or environmental harm (*Reuters*, 9 Sept. 2009). In April 2011, a new Framework and Strategy was announced for engagement with the industry.
13. One of these firms, Herakles Farms, was the subject of a complaint that the company had been in breach of several of the RSPOs Principles and Criteria on human rights and environmental destruction. The RSPO promised the complaint would be handled with "utmost priority though its grievance process" (RSPO 23 May 2012); however, the firm withdrew from the RSPO before the complaint could be examined.
14. http://www.rspo.org/news_details.php?nid=11. Similar documents have also been accepted for Indonesia (RSPO 2010) and Malaysia (MPOA 2009).
15. This decline was somewhat premature, and may have been a result of either the quality of the original planting materials or the inexperience of the Dayak smallholders in handling the new crop.
16. Those estates with transmigrant smallholders were called PIR-Trans.
17. Foreign-owned plantations began to appear as many Malaysian companies were seeking cheaper land in Indonesia (*see* Chapter 6).
18. Undang Undang Republik Indonesia No. 18 Tahun 2004 Tentang Perkebunan.
19. Undang Undang Republik Indonesia No. 25 Tahun 2007 Tentang Penanaman Modal.
20. Peraturan Menteri Pertanian (Permentan) No. 26/2007 Tentang Pedoman Perizinan Usaha Perkebunan.
21. *See* McCarthy et al. (2012: 9) for further discussion of this system, an illustration of the fact that "the terms under which smallholders engage

with oil palm under an apparently decentralized and more democratic regime in general have significantly deteriorated".

22. GAPKI Riau janji bantu sawit rakyat, *Antara*, 27 Apr. 2012.
23. Independent smallholders are not permitted to take their own fruit to the mills, but must operate through contract haulers. Many mills, in both Indonesia and Malaysia, refused to take their fruit.
24. So widespread is the problem of "counterfeit seeds" that the most recent GAIN report on Indonesia quotes an estimate from one Sumatran province that "more than half of the 140,000 ha smallholder plantations in the province are planted with counterfeit seeds…potential production losses could be as high as 260,000 MT." The report estimates that this factor could reduce overall production of CPO in Indonesia by 1.6 per cent (Slette and Wiyono 2012).
25. "76 Persen Kebun Sawit Swadaya di Riau Terancam Tutup." *Utusan Riau*, 3 May 2012. The ISPO was set up in 2011 as a rival system to the RSPO, which it accused of being "slow, biased toward consumer countries and expensive" (*Down to Earth* no. 88, Apr. 2011, p. 1). It was also considered to be too dominated by foreign NGOs. While the ISPO is mandatory, rather than voluntary like the RSPO, it is also considered weaker in its lack of insistence on "free, prior and informed consent"
from communities before plantations begin operations on their lands.
26. "Rebates for 20 oil palm smallholders," *Daily Express* (Sabah), 30 Nov. 2009.
27. A German bank (DIE) is assisting smallholders in one former estate (Eseka) (Le Maitre 2007)
28. The privatised SOCAPALM estates in the central area have an active program of extension of existing holdings (despite local opposition) while, in the southwest, CDC and Pamol have begun moves into new areas further west. The CDC has opened a new plantation on the Boa Plain while Pamol is extending into the Bakassi peninsula on the Nigerian border. Much of the movement west was also to deter thieves, who have been very active in stealing oil palm fruit from the plantations, thus reducing estate yields.
29. Based on fieldwork in Mundemba, Feb. 2011.
30. ANCUPA, Oil Palm Census 2005.
31. A new international program is seeking to identify the maximum potential productivity in each area and the reasons for productivity gaps. This will be followed by detailed extension work, producer to producer, using selected farmers to instruct others (Davila 2010).
32. For example, the Palcien estate mill had a crushing capacity of only 10 tons per hour in 1998. By 2011, this was 35 tons per hour and another smaller mill of 10 tons per hour had been built at Viche, a few kilometres

north of Quininde. La Sexta's capacity had risen from 6 tons per hour in 1998 to 30 tons per hour in 2011 (field work). The Department of the Environment insists that all mills have settling ponds and dispose of their effluents carefully, though it is alleged that some pollution problems remain (Landivar et al. 2011).

33. La Fabril is involved in refining, biodiesel production, and export of CPO, with their centre of operations at Manta, near Guayaquil.
34. The National Association of Oil Palm Growers (ANCUPA) supplied a list of 23 "social mills" of which one was in the Amazon and one in San Lorenzo, while the remaining 21 were located in the Occidental Block. These mills and their suppliers were the focus of fieldwork in April 2011, with the proprietors/managers of nine mills being interviewed, together with seven smallholders, one medium grower and one "caretaker" of a small plot with no land of his own. The mills of the largest companies—La Fabril, Palmeras de los Andes—were not included here, though an interview was conducted in EPACEM. In addition, the engineer at the local office of ANCUPA in Quininde was interviewed and officials at the oil palm research centre, INIAP.
35. The Paraiso area was one of those especially targeted for the productivity programme, as many of the farmers had low levels of technology.
36. The manager of one nearby mill said that La Fabril had been trying to obtain control of all the fruit grown in the region, but had not succeeded. Further south, a smallholder commented that La Fabril was very fussy about fruit quality, rejecting any of lower standard, so growers were in fact no better off by using that company.
37. According to ANCUPA, 40 per cent of smallholders were still using the old Dura variety of palm seed, rather than the more productive (but six times more expensive) Tenera. The manager of Quevepalma noted that smallholders sometimes placed green fruit in the middle of a load, or tried to bribe the checker to overlook poor quality bunches.
38. *See* Buitron (2001a, 2001b) and Nastacuaz (2007).
39. The manager of Coopesilencio, one of Palmatica's clients, noted that the estate sought meetings with them on no fewer than 15 occasions to offer them improved conditions, fearing that they might send their fruit to the Panamanians (fieldwork, April 2011). Another grower suggested that the behaviour of the Panamanian company was encouraging the theft of palm fruit, as their mill simply bought fruit without inquiring where it originated.
40. Five ha is regarded as adequate to support a family (source, fieldwork, Apr. 2011).
41. *See* the cooperative website at http://www.fecoopa.org/proyectos.htm.

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CHAPTER 6

The Political Economy of Large-scale Oil Palm Development in Sarawak[1]

Rob Cramb

Now I come to the question of the development of…[Native Customary Land]….It is the only way that can bring people within one generation into the mainstream of the economy. People from the interior who are today struggling with outdated economy…. Do they have land? When I ask do they have land, my God, they have plenty.

—Abdul Taib Mahmud, Chief Minister of Sarawak, 1994[2]

The Chief Minister believes a great deal of the money is available in Sarawak, but the shortcoming of local investors is that they have no experience running plantations…Datuk Taib is therefore inviting plantation owners in Peninsular Malaysia to invest in his state… "Why not come to Sarawak to invest? You can operate from Kuala Lumpur. Sarawak welcomes you", Datuk Taib said.[3]

While the scarcity of plantation land in Malaysia had resulted in many local companies going to Indonesia in search of land,…many are now zooming in on the native customary right (NCR) land development scheme in Sarawak…Participation in the NCR scheme would open up opportunities to secure additional land bank.[4]

The more than 40-fold expansion of oil palm cultivation in Sarawak over the past 30 years constitutes the most rapid and radical transformation of the rural landscape ever seen in the state. From a mere 23,000 ha in 1980, the area planted with oil palm has increased to over 1 million ha currently. Oil palm now accounts for about 8 per cent of the total land area of Sarawak and 70 per cent of the area under agricultural crops. Almost half the planted area (46 per cent) is located in the highly suitable flat-to-undulating coastal belt between Bintulu and Miri in northern Sarawak, straddling the trunk road to a distance of up to 30 km on either side (Figure 6.1). However, in the past decade, oil palm has expanded in every administrative division of the state, extending downstream onto Sarawak's extensive peatlands as well as far into the hilly interior. Around 80 per cent of the oil palm has replaced primary or logged-over forest and 30 per cent or more has involved clearing and draining peatlands.[5] These largely unregulated land-use changes have raised serious environmental concerns within and beyond Sarawak.

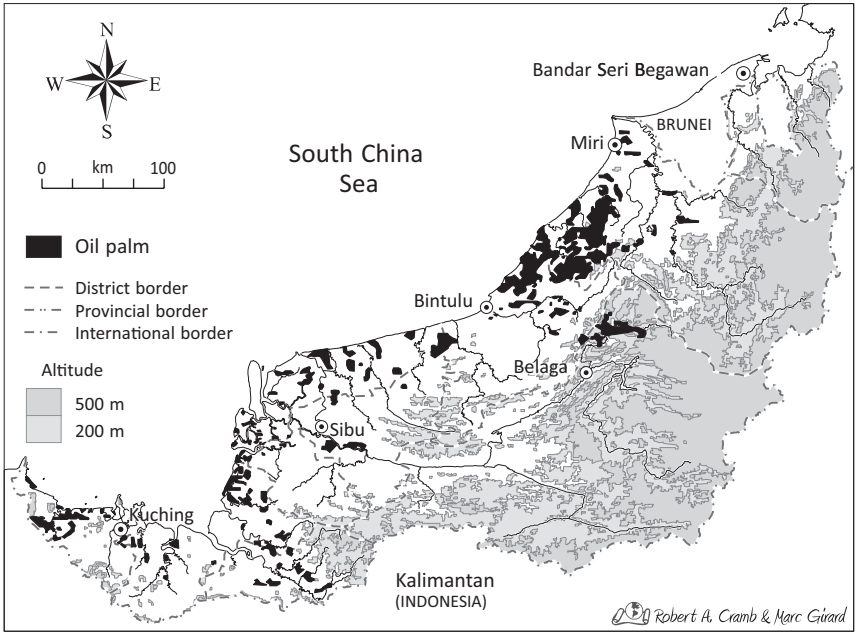

Figure 6.1. Distribution of oil palm plantations in Sarawak, 2005. Map by Rob Cramb and Marc Girard, with data obtained from Malaysian Palm Oil Board.

More than land-use change, however, the expansion of oil palm has entailed a transformation of the agricultural economy from one based almost entirely on semi-subsistence smallholdings to one dominated by large-scale, private estates. Sarawak's agriculture was distinguished by the historical and geographical importance of swidden cultivation, practised by the indigenous, longhouse-dwelling Dayak population (Iban, Bidayuh, Kayan, Kenyah, and others) on their customary lands; the successful incorporation of smallholder cash crops, especially rubber and pepper, in these swidden farming systems, despite the prevalence of customary or community-based land tenure; and the absence of a large estate sector (Cramb 2011).[6] Government agencies were geared to supporting this widespread smallholder sector through research, extension, small grants, and infrastructure (Cramb 1990). Now just under 1 million ha (91 per cent of the total oil palm area) is in large, centrally managed estates (Figure 6.2).

It might be thought that the post-1980 expansion of large-scale oil palm plantations at the expense of the smallholder sector is merely an autonomous market response to the surge in global demand for palm oil and the superior efficiency of the estate mode of production.

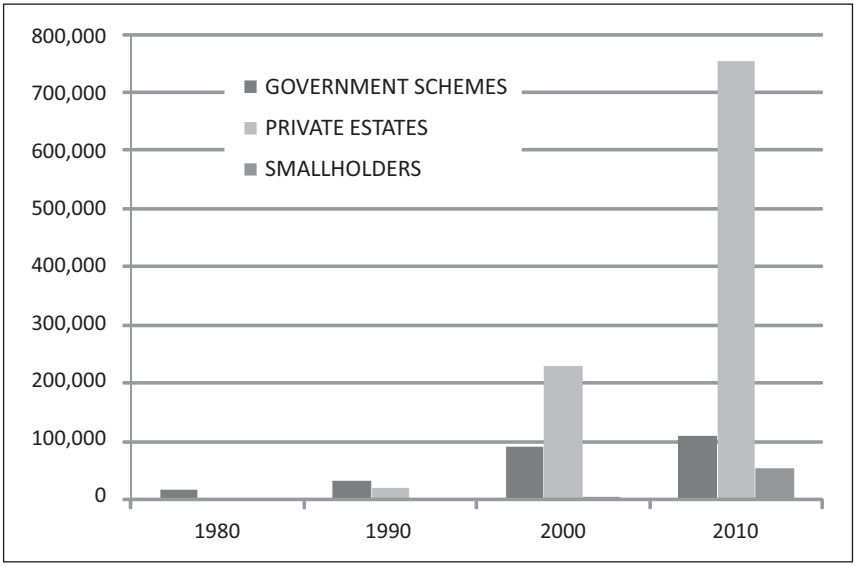

Figure 6.2. Decadal expansion in oil palm area by type of plantation (ha), 1980–2010 (Source: MPOB)

However, this would be to ignore the decisive role of government policy that has sought to limit smallholder development while delivering large areas of both public and customary land to a small but powerful clique of private plantation companies, thus actively creating a dualistic or bimodal agrarian structure where none existed before. This chapter argues that the dominant mode of oil palm expansion in Sarawak has been driven not primarily by technical or market imperatives but by the exercise of state power to maximise opportunities for surplus extraction and political patronage. The result has been a domestic land grab of remarkable proportions.

THE POLICY NARRATIVE IN SARAWAK[7]

The policy narrative underpinning the rapid expansion of large-scale, private, oil palm plantations in Sarawak is based on an outmoded dualistic conception of the agrarian transition such as prevailed in international development circles in the 1950s (Higgins 1956, Barber 1970). In this view, a dynamic, large-scale, capital-intensive, technologically advanced modern sector drives the process of economic development, drawing in and thereby transforming the resources (land and labour) of the small-scale, capital-constrained and technologically backward traditional sector. Subsequent research, however, has shown that dualistic conceptions of agrarian transition fail to capture the varied and complex processes by which local actors pursuing diverse livelihood strategies both respond to and resist globalising economic forces, and also obscure the political processes by which access to land, forests, business contracts, and other valuable assets are allocated and reallocated (De Koninck et al. 2011, Hall et al. 2011, Rigg and Vandergeest 2012).

Nevertheless, throughout his 33-year tenure as Chief Minister of Sarawak (1981–2014), Abdul Taib Mahmud, who was also Minister for Resource Planning and Environment and thus tightly controlled the allocation of land and forests, maintained a remarkably consistent policy narrative in support of large-scale plantation agriculture that had close affinities with dualistic development thinking (Figure 6.3).[8] This policy narrative formed the basis for major changes in the institutional arrangements governing agrarian development, particularly in the expansion of oil palm. It was taken up and promulgated by political and business leaders and senior government officials as part of a

Figure 6.3. Abdul Taib Mahmud (left), Chief Minister of Sarawak (1981–2014) (Photo: Sarawak Press)

program for radical agrarian reform, which Taib characterised as part of a pragmatic and non-partisan "politics of development". Hence, to question it was to be condemned as not merely "anti-government" but even more perversely, "anti-development".

The policy narrative was elaborated in numerous forums over the past three decades. A 1982 article in the *Borneo Bulletin* reviewing Taib's first year in office declared, "One of the biggest problems for the state's leaders is how to increase the role of rural folk in the economy….Datuk Taib believes large-scale land development holds the key to Sarawak's future."[9] In a 1984 interview, the Chief Minister proclaimed, "my vision for the next 20 years is to see modern agricultural development along the major trunk road with rows of plantations and villages well organised in centrally managed estates with a stake of their own in them."[10] In a major speech to the state legislature in 1994, in which he outlined his reasons for a joint-venture approach to large-scale plantation development, he concluded, "this is what will bring the natives into the main development. They may

not realise immediately, they may not even be interested in all the mechanics of joint venture….But the very fact that this is run by proper management, looked after by professional management, their business is as healthy as if they were doing their own business with the owner."[11] In 2001, he addressed a regional business conference, saying, "we have to transform our agriculture to large-scale agriculture for more controlled management, integrate research into production and [decide] how best to market our products."[12]

This narrative draws, consciously or unconsciously, on three different strands of dualistic development theory—socio-cultural, economic, and organisational dualism. Notwithstanding Taib's positive view of the role of the modern sector, there are elements of his analysis that echo Boeke's pessimistic socio-cultural dualism, particularly with regard to the motivations and behaviour of farmers in the traditional sector (Boeke 1953). In Taib's view, this "economic irrationality" is depicted as a lack of "development consciousness"—a lack of awareness of what the government is trying to do in "bringing development" to the "natives",[13] an irrational clinging to outmoded practices and customs, and an absence of the "discipline" and skills needed for a modern economy.

However, the narrative goes well beyond the behavioural assumptions of socio-cultural dualism. Taib's unwavering and oft-repeated belief in the dynamism of large-scale, capital-intensive agriculture and its capacity to draw in and transform the traditional sector in desirable ways could be taken straight out of writings on economic dualism, epitomised in the work of W.A. Lewis (1954). Rather than emphasising an unlimited supply of labour, as in the Lewis model, Taib's focus has been on Sarawak's apparently unlimited supply of underutilised or "idle" land. The historical and ecological reasons underlying Sarawak's sparse population and extensive systems of land use are largely ignored—it is assumed that land is idle because the people who occupy it are idle.

The key problem identified in Taib's diagnosis is that much of this resource is customary land (often referred to in Sarawak as "Native Customary Rights (NCR) land") that is "locked up" in the traditional sector and unavailable for modern, large-scale development. In this respect, his analysis resembles the "organisational dualism" of Myint (1985), justifying a role for government intervention to overcome this institutional constraint by bringing together the two sectors—notably

through a joint-venture approach that marries modern sector dynamism (especially its capital and know-how) with the availability of land and labour of the traditional sector.

The particular importance attributed to "unlocking" customary land in this dualistic narrative is clearly seen in Taib's 1994 speech to the State Parliament referred to above, on the eve of the state-wide campaign for joint-venture estate development. "Now I come to the question of the development of NCR [land] which is vital to the unity of Sarawak, to the social justice that may prevail in this country. It is the only way that can bring people within one generation into the mainstream of the economy—people from the interior who are today struggling with outdated economy."[14] He continued, "I look around, how can we help the poorest in our midst to come up? We can do so according to economic laws. According to economic laws, people can do better if they got three things" which, he went on to identify as land, capital, and skilled labour. He concluded that the Dayaks generally lack capital and skills but the one resource they have is land. "Do they have land? When I ask do they have land, my God, they have plenty."[15] Hence, the apparent logic of devising ways to combine Dayak land with the capital and know-how of the modern estate sector in large-scale joint ventures that would be brokered by a government agency.

The problem with this powerful and persuasive narrative is that it is clearly inconsistent with the evidence regarding the century-long history of smallholder involvement in cash crops in Sarawak (Cramb 1990, 2007). The history of smallholder rubber and pepper not only demonstrates responsive and dynamic economic behaviour, but also that customary land tenure has not been an obstacle to the adoption and expansion of cash crops. It is true that, unlike rubber or pepper, oil palm cultivation displays economies of scale in first-stage processing, and the harvested product is not storable, and hence, there is a need for a minimum planted area within a maximum distance from a mill. This is the technical basis of the argument for large-scale, centrally managed production systems. However, private estates are only one such system. In particular, the adoption of oil palm by unassisted smallholders in those regions with access to mills is an unsurprising extension of Sarawak's long history of autonomous smallholder development (Chapter 7, *see also* Chapters 4 and 5).

So what underlies the dualistic narrative of agrarian development in Sarawak? Why its persistence? Michael Dove, in criticising distorted views of shifting cultivation in Indonesia, contends that official perceptions are "unconsciously deflected from empirical reality due to political and economic self-interest" so that negative stereotypes of shifting cultivation become "an article of faith, a dogma" (1986: 239). It can be argued that the dualistic narrative in Sarawak is also sustained because it accommodates the needs both of private plantation and timber interests within and outside Sarawak, and of the political elite in Sarawak's entrenched system of clientelist politics, with Taib himself as the "super patron" (Leigh 1979, Dauvergne 1997, Cramb 2007). Whether embraced consciously or unconsciously, the narrative certainly serves to deflect perceptions from the underlying intention to open up vast areas of Sarawak's land to this narrow clique of private interests.[16]

It was apparent from the outset that the ultimate intention of government policy under Taib was to clear the way for private estate development. The *Borneo Bulletin* reported sympathetically as follows in 1982 that "huge sums of money will be needed to resettle large numbers of villagers on land schemes. The Chief Minister believes a great deal of the money is available in Sarawak [referring to timber profits], but the shortcoming of local investors is that they have no experience running plantations…Datuk Taib is therefore inviting plantation owners in Peninsular Malaysia to invest in his state…'Why not come to Sarawak to invest? You can operate from Kuala Lumpur. Sarawak welcomes you,' Datuk Taib said."[17]

However, potential investors with the capital and management expertise needed to develop land for oil palm faced two key constraints in Sarawak: "land" and "labour". These were clearly identified by invited participants at a two-day Land Development Seminar held in Kuching in 1982, which Taib officially opened. A senior official from FELDA indicated that the agency was running out of land in the peninsula for estate development and was keen to utilise the underutilised or "idle" lands in Sarawak, but needed clear title to the land, unencumbered by bothersome claims of customary landholders.[18] On the other hand, a representative of Perlis Plantations, a large peninsula-based company that is discussed in more detail below, indicated that a second key constraint was access to sufficient labour willing to work under the conditions and at wage rates necessary to

make estates profitable. In short, land was considered abundant and inherently cheap, but difficult and therefore costly to access, while labour was considered scarce, relatively costly, and "undisciplined", as small-scale farmers had their own land and a range of on- and off-farm alternatives.

Rather than invest in labour-saving and labour-augmenting technologies and institutions, the problem of labour scarcity was "solved" by importing, on two-year contracts, low-wage, male Indonesian workers (known as *Tenaga Kerja Indonesia*, TKI) in large numbers, with little or no provision of social infrastructure. Currently there is an estimated 139,000 Indonesian plantation workers in Sarawak representing around 30 per cent of the agricultural and forestry workforce and 80 per cent of the oil palm plantation workforce (Chapter 12).[19] Whereas wages for local oil palm workers are MYR 30–40 per day, Indonesians are paid a minimum wage of MYR 22 per day if registered, whereas unregistered workers are paid as little as MYR 14 per day (Wong 2011). Yet Indonesian workers are widely acknowledged to perform the same task much more efficiently, as well as being willing to work longer hours six to seven days a week, while living in simple barracks on the estate. Hence, the influx of Indonesian workers has held down rural wages and boosted the profits of the emerging estate sector. As this migrant population does not have access to land for farming, its presence in rural areas has not reduced the availability of land for estates.

The issues surrounding the use of this international "reserve army of labour" have been discussed by Li (2011), Pye (2012), and Sanderson (*see also* Chapter 12). The focus here is rather on the institutional arrangements devised by the Taib government to deliver cheap, "unencumbered" land to the newly created estate sector.

DELIVERING LAND TO THE ESTATE SECTOR

Land law in Sarawak, as embodied in the 1958 Land Code, reflects the legacy of a century of rule by the Brooke Rajahs (1841–1941) and the brief post-war period as a British colony (1946–63). During this time, as noted, there was very little investment in agricultural estates. Rather, agriculture in Sarawak was dominated by Dayak shifting cultivators, who had progressively converted a portion of their fallow lands to rubber and pepper plots, and Chinese smallholders, who also grew

rubber and pepper in more accessible locations near towns and along the few rural roads. Consequently, the land laws that emerged sought both to protect and restrict the customary land rights of the Dayaks—by limiting the areas in which Chinese could acquire title to land and by excluding the Dayaks from remaining areas of primary forest (Cramb 2007, 2012).

Consequently, existing "native customary rights" were given a limited form of recognition in the Land Code, particularly the individual use rights created by clearing forest as part of the shifting cultivation cycle (Cramb and Wills 1990, Bulan and Locklear 2008). However, without official permission, no new customary rights could be created after the Code came into force in 1958 and, until a document of title was issued, customary land was held "by licence from the State". In practice, then, native customary rights were viewed as an "encumbrance" on state land, which was defined as "all land for which no document of title has been issued" (Porter 1967: 84). Moreover, though the customary tenure systems of all indigenous groups in Sarawak (including the nomadic Penan) are based on the concept of individual or shared use rights *within a community territory* (Lembat 1994, Bulan 2007, Bulan and Locklear 2008), the Land Code does not recognise the concept of territorial rights, giving priority to the registration of individual title to land. Hence, claims to forested land reserved by a community as part of its territorial domain are not recognised by the Sarawak government.

The Land Code also defines a racially based system of classifying or zoning land, with the following categories: (1) Mixed Zone Land, in which there are no restrictions on who can acquire title to land; (2) Native Area Land, in which only "natives" of Sarawak can hold a title; (3) Reserved Land, or land held by the government (principally as forest reserves); and (4) Interior Area Land, a residual category (Porter 1967: 61). "Natives" are defined as those belonging to a number of indigenous ethnic groups, including Malays and Dayaks, but excluding Sarawakians of Chinese descent (who constitute about 24 per cent of the population and a much larger proportion of the business class).

Native Customary Land—land not held under title but subject to "native customary rights" as defined in the Land Code—overlaps the four categories listed above (Figure 6.4). For example, an individual may be holding land within a Mixed Zone or a Native Area that

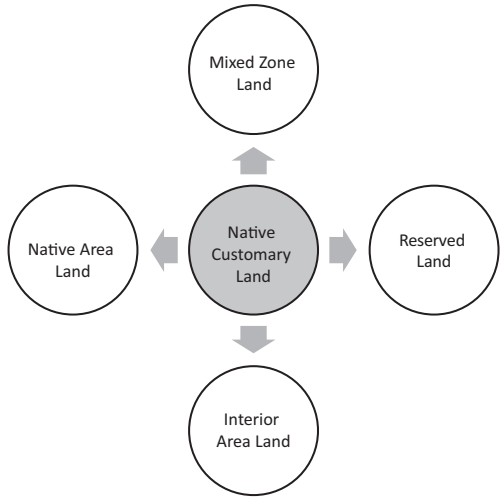

Figure 6.4. Native Customary Land may occur in any of the four land zones specified in the Sarawak Land Code

was cleared for farming before 1958 but has not yet been surveyed, registered, and titled. Hence, it is still formally state land "subject to native customary rights". Government estimates of the extent of Native Customary Land so defined, based on unpublished maps, put it at around 13 per cent of the total land area (Osman and Kueh 2010), while it is likely that the area actually held or claimed under customary tenure (broadly defined) is 20–25 per cent of the total land area and 60–70 per cent of agricultural land (Cramb and Dixon 1988, Cramb 2007, Bulan 2007, Bulan and Locklear 2008). The difference is because the official maps are based only on aerial photographic evidence of cultivation before 1958 and explicitly exclude forested land reserved within community territories. This has been the crucial point of contention between the government's perspective of customary tenure on the one hand and that of customary landholders (and the courts) on the other (Cramb 2007).[20]

Thus, the problem facing large-scale estate development is that there are still extensive areas that are "encumbered" with claims of native customary rights. Under the Land Code, Native Area Land (both titled and untitled) and those portions of Interior Area Land subject to native customary rights are excluded from dealings with

non-natives (including leasing). Even ostensibly unencumbered state land earmarked for land development has often turned out to be subject to native customary rights claims, especially in central and northern Sarawak where settlement was more recent. A longhouse community that had been established, say, in the 1930s might still have been clearing old-growth forest for shifting cultivation after 1958, and in any case would consider that remaining old-growth forest within its original territorial domain was held under customary tenure (Cramb and Sujang 2011). Hence, the Taib government sought to find ways to open up and streamline access to land for private estate development.

With regard to the allocation of state land for private plantation development (including land subject to customary tenure claims), the mechanism for doing so was already available in Section 28 of the Land Code in the form of a tenure instrument termed a "provisional lease". This is a 60-year lease, allocated at ministerial discretion for a mere MYR 741 per ha (only a fraction of market land value), which gives a company the right to develop land for oil palm, provided it resolves any claims to land within the lease area.[21] This might be done by offering compensation to the claimants in the form of cash or shares in the development, or by excising the claimed land from the final area to be developed. In practice, such negotiated solutions have been the exception, with the first recourse being to attempt the forcible exclusion of any communities found to be occupying land within a lease area through intimidation, violence, and the state's police powers. Plantation companies routinely claim (e.g., on their websites) to "own" the land described in a provisional lease as part of their "land bank", and act accordingly.[22] This has been the most common source of conflict and legal dispute between companies and landholders.

However, to access areas where customary rights were in fact recognised by the state, a new mechanism was needed. Hence, Taib established the Land Custody and Development Authority (LCDA or Pelita) in 1982 to initiate joint ventures between customary landholders and private developers in both urban and rural areas. The aim was to consolidate land held under customary tenure into extensive "land banks" suitable for plantation development, and to resettle scattered rural communities into large townships. During the 1980s, it was assumed that LCDA would be sufficient to bring customary land

into the sphere of commercial land development. However, Dayak reluctance to be involved and the strength of political opposition at that time meant that LCDA made little progress in large-scale development of Dayak land (though it proceeded to engage in remunerative urban and rural projects on Malay land, as well as on state land, to which it had privileged access).

By the mid-1990s, however, with forest resources dwindling, oil palm plantations attracting good returns, increased interest from both local and peninsula-based investors, and the major Dayak opposition party (Parti Bansa Dayak Sarawak) now incorporated in the ruling BN coalition, the government could refocus attention on the "problem of Native Customary Land". In 1995, Taib initiated his *Konsep Baru* (New Concept) policy, involving a state-wide campaign to promote the joint-venture approach to commercial land development for oil palm (Sarawak 1997). Taib called on his loyal clients in the Iban community to promote the concept. He informed the state legislature, "I have asked Datuk Jabu [Deputy Chief Minister] to convince all the leaders who are Ibans…that the task is not partisan; it is a struggle to help our people and we got to learn to work together to make a success of it….I can see even by the year 2005 there will be a dramatic change among the Iban, Bidayuh, Orang Ulu because of the transformation brought about by the development of NCR [i.e., Native Customary (Rights) Land]."[23]

To facilitate *Konsep Baru*, and estate development generally, extensive changes were made to the Land Code, with the overall effect of further restricting customary rights to land (Leigh 2001, Ngidang 2002, Cramb 2007). Thus, the Code was amended in 1994 to enable the resumption of land for large-scale private development. In 1996, and again in 1998, the Code was amended to streamline the extinguishment of native customary rights and minimise compensation payouts. A new section was inserted in 1996, stating that "whenever any dispute shall arise as to whether any native customary rights exists or subsists over any state land, it shall be presumed until the contrary is proved, that such state land is free of and not encumbered by any such rights". A 1997 amendment allows the government to amalgamate Native Customary Land within a "development area" into a single large parcel of land, and to grant a lease of up to 60 years over the land to a body corporate approved by the minister. The body corporate is one which has been "deemed to be a native" by the

cabinet. This provides the legal underpinning for the commercial use of Native Customary Land by a private plantation company owned by Malaysian Chinese.

Taib also moved at this time to open up Reserved Land for oil palm and timber plantations. Provisional leases are issued over what is deemed to be state land, including forested land outside the Permanent Forest Estate (so-called State-land Forest, which is convertible to agricultural use). In 1996 and 1997, Taib introduced a mechanism whereby oil palm estates could be established within Forest Reserves. The Forests Ordinance was amended in 1996 and the Forests (Planted Forests) Rules introduced in 1997, providing for the issuance of "licences for planted forest" within land zoned as Forest Reserves and allowing licensees to plant oil palm on 20 per cent of the plantable area for one cycle of 25 years "to allow flexibility in their cash flow management".[24]

By 2012, 42 such "licences for planted forest" had been issued, involving a plantable area of 1.3 million ha (over a quarter of the Permanent Forest Estate, not counting National Parks and Wildlife Reserves).[25] Forest Department figures indicate that, by June 2009, about 30 per cent of the allocated land had been planted, including 239,000 ha with timber species and 83,000 ha with oil palm (thus, oil palm accounted for 26 per cent of the planted area rather than the stipulated 20 per cent). The Forest Department politely commented that "in some areas, investors may give priority to planting oil palm over tree planting. This is a challenge and demands regular monitoring and auditing by the Department."[26] Among the other reasons given by the department for what was considered relatively slow progress in establishing forest plantations was that licences for planted forest (issued by the Forest Department) sometimes overlapped with provisional leases (issued by the Lands and Survey Department). More important, "claims of NCR [native customary rights] by the natives in LPF [licences for planted forest] areas are common, which may result to some areas lagging in the progress of implementation".[27]

Using these various tenure instruments, the Taib government facilitated the expansion of private oil palm estates at a rapid rate. The planted area in such estates increased from just under 4,000 ha in 1980 (14 per cent of the total, in one estate) to 936,300 ha in 2012 (87 per cent of the total, in many hundreds of estates),[28] a growth rate of 18 per cent, compared with the overall growth rate of 13 per

cent (Figure 6.2). There are three types of business arrangement for these estates—(a) sole ventures, (b) joint ventures on state land, and (c) joint ventures on Native Customary Land (Table 6.1).

(a) Sole ventures on state land. The most common arrangement is for a plantation company, whether established or newly formed for the purpose, and whether privately or state-owned, to apply for and be issued with a provisional lease or a licence for planted forest for a specified area. The land is invariably forested, though often already logged, so a permit is issued to extract the remaining valuable timber before clear-felling the area for planting with oil palm. Initially these leases were typically for at least 5,000 ha so the company could be licensed by MPOB to establish a mill, though as mills have become more widespread, leases to smaller areas have become feasible. By 2012, such sole-venture arrangements accounted for about 739,000 ha, or 70 per cent (provisional leases) and 9 per cent (licences for planted forest) of the total private estate area.

Table 6.1. Company types and tenure instruments for large-scale oil palm development on state and customary land in Sarawak

Company type	*Shareholdings*	*State land*		*Native Customary Land (1.6 million ha)*
		State-land Forest (1.7 million ha)	*Permanent Forest Estate (6.0 million ha)*	
(a) Sole venture	Company (private and/or state-owned)	Provisional Lease	Licence for Planted Forest	
(b) Joint venture	Company Government agency	Provisional Lease	Licence for Planted Forest	
(c) Joint venture	Company (60%) Landholders (30%) LCDA (10%)			Provisional Lease

Note: LCDA is the Land Custody and Development Authority (PELITA). The government agency in Type (b) is LCDA for joint ventures on state land and the Sarawak Timber Industry Development Corporation (PUSAKA) for joint ventures within the Permanent Forest Estate. The landholders' share in Type (c) is held by LCDA as trustee. Approximate land areas are derived from Liew (2007) and Osman and Kueh (2010).

(b) Joint ventures on state land. In other cases, at the discretion of the Chief Minister, the provisional lease is issued to a joint-venture company formed between LCDA and the private investor, with LCDA typically holding 40 per cent of the equity (though this varies). In such cases, LCDA provides its share of the equity capital and is represented on the board of the joint-venture company but plays little or no role in the management of the company, which is listed as a majority-owned subsidiary in the principal investor's group. Both Sarawak-based and peninsula-based companies have engaged in this kind of arrangement. Presumably the only incentive for a private company to partner with LCDA in this way is to obtain the lease. In 2013, there were 24 such joint ventures with a planted area of about 104,000 ha, or 11 per cent of the total estate area. Similar joint ventures can occur in the Permanent Forest Estate between private timber companies and the investment arm of the Sarawak Timber Industry Development Corporation (STIDC or PUSAKA), in which case the tenure instrument is a licence for planted forest.[29]

(c) Joint ventures on Native Customary Land. The third arrangement, and the one that has received the most attention, emerged with the launch of the *Konsep Baru* policy in 1994 (Uning n.d., MLD 1997). Under this policy, customary landholders agree to assign their land rights to LCDA as trustee by signing a trust deed. Meanwhile (in fact, often in advance), LCDA signs a joint-venture agreement and forms a joint-venture company with a private-sector partner approved by the Ministry of Land Development, supposedly based on the investor's plantation experience and capital resources (Ngidang 2002, Bulan 2006). The joint-venture company applies to be "deemed to be a Native" under the Land Code, so it can legally deal in Native Customary Land. A provisional lease, ideally covering a consolidated area of 5,000 ha or more, is issued to the joint-venture company for a 60-year period. Following a picket survey of individual holdings within the lease area to determine the landowners' shares in the venture, the joint-venture company pays the notional value of the land to the owners, which until 2009 was pegged at MYR 1,200 per ha (a fraction of market value).[30] Of this, 10 per cent is paid upfront in cash, 30 per cent is invested in a government unit trust scheme, and 60 per cent is invested as the landowners' equity in the company.

The private-sector partner holds 60 per cent of the equity in the joint venture, the landholders 30 per cent (through LCDA as trustee), and LCDA 10 per cent (in its own right). Hence, from the investor's point of view, the equity arrangement (60:40) is no different from that of a joint venture on state land.[31] Landholders receive no title to their land but can expect to receive dividends according to the area of land contributed, once the joint-venture company makes a profit. They can obtain employment on the estate or bid for contracts but are not involved in any management decisions or financing arrangements. The board of the joint-venture company is dominated by the investor's representatives and, as with joint ventures on state land, the company is listed as a majority-owned subsidiary in the investor's group. By 2011, there were 31 joint-venture projects underway on Native Customary Land, involving 12,600 participants—mostly from the Iban ethnic group that constitutes by far the largest proportion of Sarawak's Dayak population. A total of 58,000 ha had been planted with oil palm, averaging 4.6 ha per participant. This was only about six per cent of the total estate area.

In practice, in each of these three types of business arrangements, the company that applies for and is awarded the lease can be a so-called "shell company", with no relevant business experience, assets, or activities, but with close links to the Chief Minister or other members of the political elite. Given that the market value of the lease is at least ten times the premium paid, the company can be immediately sold to prospective planters, providing a windfall gain to the original owners. For example, a provisional lease of 5,000 ha of undeveloped state land would cost the shell company MYR 3.7 million (or, at the minister's discretion, even less). Given land values in 2008, the company could be bought for at least ten times that amount, giving a net return of MYR 33 million for merely registering the company and applying for the lease. Such practices, though widely known, were starkly confirmed in a recent expose by Global Witness, where relatives and associates of the Chief Minister clearly outlined their use of this approach.[32] Not only local companies such as Rimbuan Hijau but also large peninsula-based companies such as Tradewinds and Sime Darby have been subjected to this sort of deal (*see* below). A variant approach is for the Sarawak-based company holding the lease to begin developing the plantation, whether on "unencumbered" State

land or Native Customary Land, and then, after running into financial difficulties or land disputes, to sell its stake, sometimes at an inflated price, to a large peninsula-based company seeking to expand its land bank. Companies including IOI Corporation and TH Plantations have been caught in this trap (*see* below).[33]

The concerted effort of the Sarawak state to make both State and Native Customary Land available to the private plantation sector has not gone without resistance. Affected communities have used a variety of methods to draw attention to their claims and to seek to recover their land. These have included, variously, filing police reports, appealing to political representatives, blockading plantation roads, damaging plantation equipment, harvesting the oil palm on the disputed land, demonstrating outside government buildings, and enlisting the support of the few non-governmental organisations (NGOs) in Sarawak that have been able to take up their cause. Most significantly, they have taken plantation companies, government agencies, and the government itself to the High Court in Sabah and Sarawak.[34] More than 200 such cases are pending, some having been in process for more than a decade. However, in a number of landmark judgements, the High Court has undermined the government's narrow interpretation of customary land rights and called into question the legality of the tenurial and contractual arrangements for large-scale oil palm development. The crucial judgement was in 2001 in the case of *Nor anak Nyawai and others v. Borneo Pulp Plantation* and others (equivalent in import to the Mabo judgement in Australia) that upheld the notion of prior territorial rights (*pemakai menoa*) as a legitimate form of customary ownership, regardless of any evidence of clearing for cultivation, and trumping any tenure instrument (such as a provisional lease) issued by the state. Some of the subsequent judgements are discussed in the analysis that follows, which traces the experience of the various plantation companies that took advantage of the Taib government's policies.

PLANTATION COMPANIES

The post-1980s expansion of oil palm estates has been undertaken by two distinct types of companies—newly formed plantation companies based in Sarawak and established plantation companies based in

Table 6.2. Major oil palm plantation companies in Sarawak

Sarawak-based companies	*Peninsula-based companies*
Rimbunan Hijau Group, including Rimbunan Sawit Holdings Bhd Jaya Tiasa Holdings Bhd Subur Tiasa Holdings Bhd Mafrica Corporation Sdn Bhd	Tradewinds Plantations Bhd
Sarawak Oil Palm Bhd	Sime Darby Plantation
KTS Group, including BLD Plantation Sdn Bhd Grand Perfect Sdn Bhd	Tambunan Haji (TH) Plantations Bhd
WTK Holdings Bhd	Wilmar International Ltd, formerly PPB Oil Palms Bhd Perlis Plantations Bhd
Ta Ann Holdings Bhd, including Ta Ann Plantations Sdn Bhd Grand Perfect Sdn Bhd	Boustead Holdings Bhd
Sarawak Plantations Bhd, formerly Sarawak Land Development Board	IOI Corporation Bhd
Shin Yang Group, including Sarawak Oil Palm Bhd	FELCRA Bhd
Delta Bhd, including Delta Padi Sdn Bhd	FELDA Bhd
Samling Group, including Glenealy Bhd Grand Perfect Sdn Bhd	

Note: Berhad (Bhd) = Limited, denoting a public company; Sendirian Berhad (Sdn Bhd) = Proprietary Limited, denoting a private company. Companies are listed roughly in order of total planted area. Note that FELCRA has established both commercial estates on state land and managed smallholder schemes.

Peninsular Malaysia (Table 6.2). As noted above, Taib in 1982 remarked that "a great deal of the money is available in Sarawak, but the shortcoming of local investors is that they have no experience running plantations." He was therefore "inviting plantation owners in Peninsular Malaysia to invest in his state."[35] However, the invitation

was taken up rather slowly and the experience of the peninsula-based companies has been mixed. Hence, the impetus came initially from local investors with close patron-client ties to Taib.

The patron-client pattern of resource allocation had become well-established during Sarawak's timber boom of the 1960s, 1970s, and 1980s (Dauvergne 1997). Timber licences were allocated over vast areas of valuable forest, mainly to Malaysian Chinese firms, in return for financial and other material favours, especially at election time. Hence, the ruling Barisan Nasional (BN) coalition's hold on power in Sarawak, and its ability to deliver crucial parliamentary seats to the BN federally, was underwritten by the Chief Minister's unfettered control over Sarawak's forest wealth. These patron-client links were extended beyond timber to include privileged access to lucrative government contracts and, above all, to commercially valuable urban and rural land (Leigh 1979). Moroever, the key commercial actors came to include not only favoured Chinese businesses, but also an emerging class of so-called bumiputra ("indigenous") concerns, most of which were owned, directly or indirectly, by members of the political and bureaucratic elite in Sarawak.[36]

Sarawak-based Companies

(a) Sarawak Oil Palm. The first large-scale commercial planting of oil palm in Sarawak began in 1968 with the establishment of Sarawak Oil Palm (SOP) Sdn Bhd, a joint venture between the Sarawak government and the Commonwealth Development Corporation (CDC), which planted just over 3,000 ha of state land in Miri Division in the state's Northern Region.[37] This functioned from the outset as a commercial estate with mainly Javanese labour. However, it was seen as a catalyst for an inclusive pattern of oil palm development in northern Sarawak, which was at that time still a sparsely populated and little developed region. The Miri-Bintulu Regional Planning Study (MBRPS) of the early 1970s recommended the allocation of state land for both commercial estates such as SOP and independent settlers, who would benefit from the "sites and services" provided by government agencies such as the Sarawak Land Development Board (*see* below) and the processing infrastructure established by the estates (Hunting Technical Services/Hoff and Overgaard, 1974). The main concern of the MBRPS

consultants was to avoid the "sociological ills associated with plantation monoculture" in other parts of the world.[38] However, the recommended mix of estates and smallholdings was not adopted in the subsequent development of the region (Cramb and Sujang 2013) (unlike in Indonesia where, as discussed in Chapter 3, the nucleus estate and smallholder (NES) model was the main strategy until recently).

During the Taib era, SOP has grown into one of the largest private plantation companies in Sarawak, with a planted area in 2013 of over 70,000 ha.[39] In 1990, SOP became a public company (SOP Bhd) and in 1995, CDC's share was bought over by Ling Chiong Ho, a timber tycoon and close ally of the Chief Minister, who owns Shin Yang Group that has attracted widespread criticism for its logging and oil palm activities in Sarawak's interior.[40] Ling has been executive chairman of SOP Bhd since 2003; his brother and eldest son are also on the board, as is Rentap Jabu, son of Deputy Chief Minister, Alfred Jabu Numpang. Under Shin Yang's control, SOP has been at the centre of some of the major conflicts over customary land. In particular, in 1999, four thugs employed by a SOP Bhd contractor were killed by Iban landowners in Suai in retaliation for the standover tactics that were being employed (IDEAL 1999). The Ministry of Land Development reported in 2000 that 5,700 ha of SOP's Suai Estate were subject to customary land claims, comprising 87 per cent of the approved area. Nevertheless, the Shin Yang Group continues to use SOP Bhd as a vehicle for its expansion.

(b) The Big Six. Apart from SOP, the Sarawak-based companies have mainly comprised private, family-based plantation companies formed by local timber tycoons, many of them Foochow Chinese from Sibu Division, who had already acquired considerable wealth and political influence through their access to logging contracts and concessions in Sarawak's vast swamp and hill forests during the timber boom of the 1960s through to the 1980s (Leigh 1988, Dauvergne 1997, Faeh 2011). These were the "local investors" described by Taib as having "a great deal of money" but "no experience running plantations". There are six such companies that continue to dominate the timber industry in Sarawak, all with close links to the Chief Minister: Samling (founded in 1963 by Yaw Teck Seng), Rimbunan Hijau (founded in 1975 by Tiong Hiew King), WTK (founded in the 1940s

by Wong Tuong Kwang), Ta Ann (founded in the 1980s by Hamed Sepawi and others), KTS (founded in 1965 by Lau Hui Kang), and the above-mentioned Shin Yang (founded in 1983 by Ling Chiong Ho). These groups hold at least 4.5 million ha of timber concessions between them (Samling has around 1.6 million ha and Rimbunan Hijau around 1.5 million ha) and around 700,000 ha of land banks (in the form of issued licenses for planted forest) for possible oil palm expansion (Faeh 2011). Most of the founders of these companies worked their way up from humble beginnings in the 1940s, 1950s, and 1960s, made their fortunes from logging in the 1960s, 1970s, and 1980s, and then diversified into a range of other pursuits in the 1980s and 1990s, establishing large family-owned conglomerates.[41] One or more companies within each of these conglomerates was then publicly listed in the 1990s and 2000s to raise capital for global expansion; apparently, only Shin Yang remains focused on Sarawak.

As timber resources were progressively depleted (log volumes peaked around 1990) and the profitability of oil palm increased, these companies obtained provisional leases to establish oil palm plantations. Though inexperienced in agricultural plantations, they had the adaptability, financial resources, and field staff to make this transition. The KTS Group was the first timber group in Sarawak to venture into oil palm in its own logged-over areas with a plantation started in 1987 at Niah, south of Miri, by an associate company, Bintulu Lumber Development, which was listed on the Bursa Malaysia (formerly the Kuala Lumpur Stock Exchange) in 2003 as BLD Plantation Bhd (Faeh 2011). KTS now has a planted area of about 45,000 ha, of which BLD has 24,000 ha, mostly within the prime Miri-Bintulu oil palm belt.

Rimbunan Hijau followed soon after with a plantation and mill in the Bakong region near Miri in 1988 that required a compromise with customary landholders before it could go ahead (Cramb and Sujang 2007). The group has since expanded to hold 16 estates with a gross area of over 90,000 ha. After the introduction of the Planted Forest Rules in 1997, Rimbunan Hijau, through its subsidiary Jaya Tiasa, has used licences for planted forest to expand onto the peatlands of the lower Rejang. Through other subsidiaries, Rimbunan Sawit Berhad and Mafrica Corporation Sdn Bhd, it is also involved in seven *Konsep Baru* projects on customary land from Lundu in the Southern Region to Ulu Teru in the Northern Region. Together, these

involve 3,766 participants (30 per cent of the total) and a planted area of 17,234 ha (30 per cent of the total), making Rimbunan Hijau the largest investor in *Konsep Baru* projects (Figure 6.5). However, at the time of this research, none of these projects had issued dividends to the landholders (though some "incentive payments" had been made), suggesting that the joint-venture companies involved are being squeezed in the interests of the holding company (Cramb 2013). At least two of the projects are subject to land disputes, with Iban landowners claiming that their land has been included in the schemes fraudulently. In mid-2011, Palmraya Pelita Meruan Sdn Bhd in Sibu Division (a Mafrica investment) had reportedly lost MYR 2.33 million in revenue due the theft of fruit from its estate by aggrieved landholders, while in mid-2012, it was reported that 26 landholders in the Palmraya Pelita Sikat Sdn Bhd estate, also in Sibu Division, had refused to surrender their 3,000 ha to the company and were allegedly being subjected to violence by company workers; they had organized a *sandau ari* (a daytime ceremony to which neighbouring longhouse-communities were invited) to invoke the support of the Iban gods and ancestral spirits in their land battle.[42]

Figure 6.5. Bidayuh farmer, part of a work-group planting food crops within a Rimbunan Hijau joint venture plantation (Photo: Sunny Sanderson)

The other four large timber groups have also expanded their oil palm holdings, both by establishing new plantations and acquiring existing plantations. Samling now has around 19,000 ha planted, WTK has 40,000 ha, Ta Ann Plantations has 35,000 ha, and Shin Yang at least 23,000 ha. Shin Yang has defied most observers' expectations by pushing into the Upper Rejang in Kapit Division, within the catchment of the Bakun Dam, in forested lands claimed by semi-settled Penan groups. A recently formed company, Grand Perfect Sdn Bhd, jointly owned by Samling, KTS, and Gasijaya (which is in turn owned by Hamed Sepawi of Ta Ann) holds the first and largest licence for planted forest (LPF001), covering 490,000 ha in Bintulu Division, of which 150,000 ha is being planted with a mix of *Acacia mangium* (for pulpwood) and oil palm.[43] A trial is pending in the High Court over Grand Perfect's oil palm plantation in Sebauh, which is being contested by customary landholders.

(c) Second-tier companies. Other Sarawak-based companies have followed the lead of the "big six"—including Chinese-owned companies with links to Taib and bumiputra companies owned by Taib family members or nominees, or by other political and business figures close to Taib. Some of these were merely shell companies, established to acquire a provisional lease and then bought over, bestowing a capital gain on the original shareholders, but some were genuine plantation concerns (though these too have sometimes been bought over by larger peninsula-based companies). In many cases, the companies are linked via complex and fluid shareholding arrangements.

Delta Bhd, founded by another Foochow timber tycoon and businessman, Hii Yii Peng, conforms to the pattern set by the "big six", though it has ventured into oil palm more recently. In 1997, Delta's subsidiary, Rinwood Plantation Sdn Bhd, formed a joint-venture company with LCDA to establish a plantation on supposedly state land along the Tinjar River in Miri Division, but resistance from Kayan and Kenyah customary landholders created financial and legal problems for the venture and it subsequently sold its stake to the peninsula-based IOI Corporation (*see* below). A Delta subsidiary—Delta Padi—was allocated 27,600 ha of state land in the Rejang Delta in Sibu Division for MYR 225 per ha, supposedly to establish rice plantations, but the Melanau customary landowners, who had welcomed the rice proposal, were surprised to find that Delta Padi has established mostly

oil palm plantations instead. Delta Padi is of particular interest because it is part-owned by Mesti Bersatu Sdn Bhd, of which Taib himself (rather than a family member or nominee) is a director and major shareholder.[44]

Similarly, Double Dynasty Plantations Sdn Bhd, established in 1997, has been another more recent entrant to the oil palm industry that has expanded rapidly under Taib's patronage. Double Dynasty (DD) is jointly-owned by Yee Ming Seng (linked to the Hii family and the Delta Group) and Ling Chiong Sieng (co-owner and CEO of Shin Yang Holdings).[45] The company also has close links to Mutiara Hartabumi Sdn Bhd, of which the Chief Minister's brother, Ibrahim Mahmud (a retired policeman), was executive chairman and a major shareholder (until his death in 2011), and to Nirwannah Muhibbah Sdn Bhd, owned by Naroden Majais, Assistant Minister for Land Development and a close associate of Taib.[46] With these connections, DD has in the past 15 years established 44,000 ha of oil palm plantations in joint ventures with LCDA in Bintulu and Samarahan Divisions on both State land and Native Customary Land.

Double Dynasty's joint-venture company in Bintulu Division, DD Pelita Sebungan Sdn Bhd, has planted 4,300 ha out of a gross area of 10,000 ha and in June 2012, in a ceremony attended by politicians and local officials, the company announced that "dividends" of MYR 8.7 million had been paid to the 750 participants.[47] However, this figure included the MYR 2.1 million paid up-front as part of the standard *Konsep Baru* package, of which one quarter was in cash and three quarters invested in a government unit trust, Amanah Saham Sarawak (ASSAR). This payment is in fact a charge against the joint venture company, hence a deduction from future dividends (Cramb 2013). A further MYR 1.4 million was in interest payments from the ASSAR investment and not a return to the oil palm development. Another MYR 2.2 million had been paid as "incentive payments"—again, a charge against future dividends and a dubious form of payment in accounting terms that had been instituted in all *Konsep Baru* schemes to allay landholder discontent following the failure of the Boustead Pelita Kanowit project to deliver dividends (*see* below). This leaves MYR 3 million of dividends, which may have been in fact "advance dividends", also introduced in the wake of landholder protests at Kanowit. Allowing that the last figure referred to actual dividends (which would have made this company one of only two companies

out of 31 to issue genuine dividends to landholders), this represents MYR 300 for each hectare included in the project after seven years of operation, or the equivalent of about 10 days' farm wages.

The connection between Double Dynasty and Taib-linked companies can be seen in a case from Samarahan Division, which encompasses the Sadong basin where the above-mentioned Naroden Majais has concentrated his oil palm activities. Sadong Plantation Sdn Bhd was formed in 1998 as a joint venture between Naroden's Nirwana Muhibbah Sdn Bhd (70 per cent) and LCDA (30 per cent) to establish oil palm on an area of 3,880 ha known as Lot 2979, for which it was issued a provisional lease in 2000. The land in question was rezoned from Interior Area Land to Mixed Zone Land in 1998, thereby conferring an immediate capital gain on the lessees. Having logged the area, the joint-venture partners brought in Double Dynasty through its wholly-owned subsidiary, Kee Wee Plantation Sdn Bhd, which acquired a 65 per cent stake while Nirwana Muhibbah retained 5 per cent. The company was renamed DD Pelita Sadong Sdn Bhd and proceeded to plant almost the entire area with oil palm.

However, this ignored the fact that Lot 2979 formed part of the ancestral lands of the Remun Iban, one of the longest-settled Dayak groups in Sarawak, whose occupancy of this territory predated the arrival of James Brooke and had involved paying regular tribute to the Sultan of Brunei. Despite numerous letters to the authorities and police reports, no action was taken against the company, and so in 2002, the landowners from one of the Remun villages, Kampung Merakai, filed a class action suit in the High Court. The trial started in 2008 and in 2011, Justice Linton Albert declared the lease null and void with respect to the disputed area as it was part of the territorial domain of the plaintiffs, thus again upholding the legality of customary territorial rights as established in the 2001 Nor judgement. The provisional lease was to be rectified to exclude the customary land, and damages paid.[48] In a second case, a neighbouring Remun village, Kampung Lebor, also challenged the validity of the lease in the High Court and in 2012, Justice Clement Skinner too found in their favour in a lengthy and important judgement that again reasserted the validity of their prior territorial rights to the land, regardless of whether it had been cultivated or otherwise met the stipulations of the Land Code. The practical outcome of these judgements was that

the landowners obtained exclusive control of the established oil palm plantation on their land and were exploring options for cooperative management with an alternative plantation agency.

Again, as with Delta, after encountering such problems with local landholders, Double Dynasty managed to sell its oil palm interests in Samarahan Division to a peninsula-based company seeking to expand its land bank. It first negotiated with IOI Corporation in 2008, though this deal fell through, but then subsequently managed to sell its stake to TH Plantations in 2012 (*see* below). Notwithstanding these setbacks in Samarahan, another company linked both to Naroden and to Awang Tengah Ali Assan (Minister for Resource Planning and Environment II, and another close associate of Taib), United Teamtrade Sdn Bhd, has pushed ahead with oil palm development in an adjacent lot of 7,300 ha, also owned by Remun Iban, using gangster-like tactics reminiscent of Sarawak Oil Palm in the 1990s to intimidate protesting landholders.[49]

Another Taib-linked bumiputra company that has expanded its operations in Sarawak's Southern Region in recent years is Tetangga Akrab Sdn Bhd. This company is controlled by Sepawi Ariffin, a former assistant director of the Department of Land and Survey who subsequently established his own surveying firm and who, from 1992 to 2006, was Executive Secretary of Parti Pesaka Bumiputera Bersatu (PBB), the dominant party in the state's BN coalition. Tetangga Akrab, United Teamtrade, and Memaju Jaya have carved up the Balai Ringin area of Samarahan division, one of the longest settled Dayak territories in Sarawak, giving rise to physical conflict and legal proceedings.

In addition, Tetangga Akrab was the joint-venture partner in a *Konsep Baru* project on Iban land in Pantu district, Sri Aman division (Figure 6.6). The joint venture company, Tetangga Arkab Pelita Sdn Bhd, had proceeded with the development of the land even though many of the customary landowners had their land included in the consolidated lease without their consent.[50] Over 100 of these claimants eventually took Tetangga Akrab, LCDA, and the Sarawak government to the High Court. In 2009, while these proceedings were ongoing, Tetangga Akrab managed to sell its stake in the joint venture company to a relatively small peninsula-based company, Kim Loong Resources Bhd, from Johor. When this sale was being mooted, there was widespread consternation among the landholders that their customary land

Figure 6.6. Documenting a land dispute in an Iban community in Pantu district, Sarawak (Photo: Rob Cramb)

was being sold illegally.[51] However, there is in fact provision in the Land Code for an investor to sell its 60 per cent share in a joint venture company to another approved investor, provided the Minister of Resource Planning authorises the transaction; in such cases, the land rights remain with the trustee, LCDA. Hence, the sale to Kim Loong went ahead and the joint venture company was renamed Winsome Pelita (Pantu) Sdn Bhd.

In February 2011, Justice Linton Albert found in favour of the plaintiffs who had claimed their land was fraudulently incorporated in the project. In a new development, the judge ruled that any joint-venture agreement between a non-native and native for an oil palm plantation contravenes Section 8 of the Land Code. He said that neither Tetangga Akrab nor the joint-venture company had been declared a native at the time of the joint-venture agreement and it did not matter that the company was subsequently declared a native because it was "a principle of antiquity that things invalid from the beginning could not be made valid by a subsequent act". The judge

also said the principal deed and the joint-venture agreement had deprived the plaintiffs of their land and property, a source of their livelihood, and hence, they had violated the Malaysian Constitution. In a remark that sent shock waves through the land development bureaucracy, he observed that "irrespective of the cleverly devised legal mechanisms and legalistic language that constituted the principal deed and the joint-venture agreement, they are mere fig leaves, too scanty to conceal their violations of Articles 5 and 13 of the constitution because the sum total of the rights of the landowners, to put it crudely and for want of a better word, is zero."[52] The landholders were to be given vacant possession of the disputed land and the company restrained from occupying or harvesting the estate. However, in March 2011, the Court of Appeal granted a stay of execution of the High Court's judgement and Kim Loong Resources subsequently filed an appeal. A verdict was still being awaited at the time of writing.[53]

Because of the complex web of companies involved in each timber and plantation group, some of them public and some of them private, and the fluidity of their equity ownership, it is not easy to get a clear picture of the share of oil palm area held by these large Sarawak-based companies. The aggregate planted area of the companies listed in Table 6.1 is about 326,000 ha, of which companies in the Rimbunan Hijau Group have the biggest share (almost a third). However, there are many smaller companies, often directly linked to Taib, which have acquired substantial leases in the past decade and then were quickly sold or transferred to nominees. According to Land and Survey Department records, Titanium Management Sdn Bhd, which is majority-owned and directed by Taib's son, Mahmud Abu Bekir, has received provisional leases to 10,500 ha of state land in Kuching, Samarahan, and Sri Aman Divisions for no charge. Lambang Sinar Mas Sdn Bhd, owned by Taib's sister, Raziah Mahmud, and her husband, Robert Geneid, was issued provisional leases of around 16,000 ha in Samarahan Division in 2004, before being handed over or sold in 2005 to Yu Chee Lieng and Yu Chee Hoe, close business associates of the Taib family. (These leases are being challenged by Bidayuh and Iban landholders.) Saradu Plantation Sdn Bhd, of which Robert Geneid and Raziah Mahmud are majority shareholders, has been given provisional leases of 15,000 ha in Balingian District, Sibu Division. In fact, the Bruno Manser Fund identifies 33 companies in which Taib family members have an interest, with leases to a total area of 199,000 ha.

Only a few of these have been discussed above. A reasonable estimate is that the aggregate planted area in the hands of Sarawak-based companies of all types (large or small, Chinese- or bumiputra-owned, on State or customary land) was about 690,000 ha in 2012. This was 64 per cent of the total planted area and 73 per cent of the area in oil palm estates (that is, excluding independent, supported, and managed smallholders).[54]

Peninsula-based Companies

The second type of company spurring the expansion of oil palm estates in Sarawak has comprised established companies from Peninsular Malaysia (Table 6.2). These were already large companies, mostly with considerable plantation experience in rubber, oil palm, sugarcane, and other crops, and often part of large, diversified conglomerates (Tan 2008). Some, such as FELDA, Sime Darby, Tradewinds, and TH Plantations, are effectively government-owned and/or closely linked to UMNO, the dominant party in the ruling BN coalition. Apart from FELDA, these arose from government-engineered takeovers during the New Economic Policy (1971–90), which sought to increase bumiputra equity in the economy at the expense of foreign ownership, with subsequent privatisations in the Mahathir era favouring UMNO-linked bumiputra business interests (Gomez and Jomo 1999; *see* Chapter 2). Others, notably Perlis Plantations (now part of Wilmar International) and IOI Corporation, are large publicly listed Malaysian Chinese businesses that (like their Sarawak counterparts) grew out of the entrepreneurial activities and political connections of outstanding individuals and the family businesses they pioneered.[55]

These companies were initially hesitant to expand into Sarawak, despite Taib's plea in 1982, "Why not come to Sarawak to invest? You can operate from Kuala Lumpur. Sarawak welcomes you."[56] As the oil palm boom continued and land in the Peninsula became increasingly scarce, they looked to the Borneo states and to Indonesia to increase their plantation land banks (with the aim of increasing their share price and borrowing capacity in the short term as well as their long-term profitability). However, Sabah was in many ways more attractive than Sarawak, with larger concentrations of more suitable land and seemingly fewer institutional impediments. Moreover, as Varkkey (2012) has argued, the mode of doing business in Malaysia by

bringing in influential members of the politico-bureaucratic-military elite was readily transferred to Indonesia, such that Malaysian (and Singaporean) joint ventures in the Indonesian oil palm sector now account for a quarter of the total planted area, especially in Sumatra and Kalimantan.

Eventually, however, the repeated invitations to invest in Sarawak bore fruit. When in 2008 IOI Corporation announced its intention to buy Sarawak plantations (*see* below), *The Star* newspaper quoted an analyst who said that "while the scarcity of plantation land in Malaysia had resulted in many local companies going to Indonesia in search of land…many are now zooming in on the native customary right (NCR) land development scheme in Sarawak." The article also cited a report that said "participation in the NCR scheme would open up opportunities to secure additional land bank. [Hence] IOI's proposed acquisition of the Sarawak plantations could result in a potential re-rating given the group's continued focus on upstream activities."[57] However, it seems that the peninsula-based firms may have initially underestimated the distinctive nature of customary land tenure in Sarawak, perhaps being convinced by the reassurances of Taib and his long-time Attorney General, J.C. Fong, who drafted the draconian amendments to the Land Code in the 1990s and provided the legal arguments to back up the government's expansionary policy (SAG 2007), most of which have been refuted by successive High Court judgements. In 2010, palm oil mill equipment-maker CB Industrial Product Holding Bhd (CBIP) announced it would sell its 30 per cent share in three oil palm companies controlled by Tradewinds in order to expand its plantings in Indonesia or Papua New Guinea. According to a news report, Managing Director Lim Chai Beng "brushed off factors such as native land rights issues and soil conditions when asked if there are other reasons why CBIP plans to sell the stakes. 'No, land rights issues are common. Almost every plantation will have this problem,' he says." The report continued, "a Miri-based planter agrees that native land rights issues are part and parcel of life for Sarawakian planters, especially on new developments".[58]

(a) FELDA. As noted above, FELDA had already indicated its concern about obtaining clear title to land at the 1982 Land Development Seminar. However, soon after, FELDA Bhd, operating as a state-owned plantation company rather than a settlement agency, led the

way for the peninsula-based companies. Perhaps hoping to replicate its large estate complex in eastern Sabah (Sutton 2001), FELDA negotiated a provisional lease to what was ostensibly unencumbered state land in Lundu, Kuching Division, in the south-western corner of the state. However, in an early indication that the Taib government's confident assumptions about state land were flawed, FELDA encountered local resistance from Bidayuh claimants. This resistance was initially met with force but eventually resulted in a negotiated settlement; the General Manager of LCDA remarked ruefully at the time, "we cannot send the police in around the clock."[59] Perhaps because of these difficulties, the operations of FELDA Bhd in Sarawak have been confined to this one estate of 7,680 ha.

(b) Perlis. The first of the private companies to venture in was Perlis Plantations, originally a sugar company established by Robert Kuok, another self-made Foochow Chinese businessman, this time from Johor Bahru, who has since become Malaysia's richest person. Perlis first acquired a stake in Saremas Sdn Bhd (a company linked to Alfred Jabu Numpang, Deputy Chief Minister (Jayum 1994: 251)) in 1986, which had a proper lease (not a provisional lease) to develop a 9,000 ha oil palm plantation in Suai, Miri Division, in the heart of the prime oil palm belt. This was Perlis's first oil palm venture anywhere, but it subsequently acquired oil palm estates in Sabah and in 1997 merged these with its Sarawak holdings to form PPB Oil Palms Bhd, which was listed on the Bursa Malaysia. In 2007, a merger between the Kuok Group and the Singapore-based multinational Wilmar International Trading meant that PPB Oil Palms Bhd came to be part of Wilmar, of which Robert Kuok's nephew, Kuok Khoon Hong, is the CEO. The enlarged entity has a land bank of 570,000 ha, making it the second largest oil palm company globally, behind Sime Darby. Now PPB Oil Palms Bhd operates two mills and six estates of 20,858 ha in Sarawak. In 2010, it became the first plantation company in the state to receive RSPO certification.[60]

From the mid-1990s, at the urging of senior figures in the Sarawak government, other large peninsula-based companies have expanded to Sarawak, including Boustead Holdings Bhd, Sime Darby Plantation Sdn Bhd, Tradewinds Plantation Bhd, TH Plantations Bhd, and IOI Corporation Bhd, but they have had less satisfactory experiences than Perlis.

(c) Boustead. Boustead Bhd is one of Malaysia's oldest companies, beginning as a small trading concern in 1828 and moving into rubber plantations in the second decade of the twentieth century. In 1976, it became a wholly Malaysian-owned conglomerate through acquisition of shares by Perbadanan Nasional (PERNAS, the National Trading Corporation) as part of the New Economic Policy. Its major shareholder is now Lembaga Tabung Angkatan Tentera, a statutory body established in 1972 within the Ministry of Defence as the superannuation fund for the Malaysian Armed Forces. Boustead moved into Sarawak in the mid-1990s and has two estates totalling 19,000 ha. One is a joint venture with LCDA along the Tinjar River in Miri Division (Boustead Pelita Loagan Bunut) that has had problems with flooding, low yields, and land conflicts. The other, at Kanowit in Sibu Division, was the first and is still by far the largest of the *Konsep Baru* projects on customary land, and one of the most controversial.

The Kanowit project commenced in 1995 (though the Principal Deed between LCDA and the landholders was not signed until 2002) and includes 1,685 Iban households in 111 longhouse communities, representing a population of over 10,000, with a planted area of 12,600 ha. During the launch of the plantation by Taib in August 1996, it was hailed as the best-planned project between a private investor and customary landowners with the potential to lift the latter out of poverty. However, there were many early landholder concerns and by 2005, the joint-venture company—Boustead Pelita Kanowit Sdn Bhd—was incurring an annual loss of MYR 28 million, hence no dividends could be paid to landholders. It had an accumulated debt of MYR 293 million, estimated to rise to MYR 344 million by 2019 such that the company would in fact never be able to declare dividends. It appeared that the joint-venture company was being poorly managed, with high costs and low yields, and part of the reason was that the investor was using the company to make profits elsewhere in the Boustead Group (Cramb 2013).

In 2008, this led to protests and blockades (Thien 2008). The Ministry of Land Development responded to the crisis and "interim dividends" or "advances" were offered to the landholders. Some landholders accepted the payments and others refused but, in general, the view was that the amount offered was a poor return on a 13-year investment. In 2009, five longhouse leaders filed a writ of summons in the High Court on behalf of themselves and 163 other landowners

from the Kelimut Estate (the first and largest of the six estates in the Kanowit project). The action was not initially against Boustead (with whom the landholders had no contractual agreement), but against LCDA, the Superintendent of Lands and Survey for Sibu, and the Sarawak government for failing to protect their interests in the land against the investors. They asked to be awarded "exemplary and aggravated damages" because of the loss they had suffered as a consequence of LCDA's "negligence and/or breach of trust".[61] In 2011, Boustead Plantations Bhd (the holding company) and Boustead Pelita Kanowit Sdn Bhd (the joint-venture company) were added as fourth and fifth defendants.

In 2012, the High Court ordered the Kanowit joint venture agreement to be cancelled and the land returned to the Kelimut landowners, with no compensation to be paid to the company for the investment undertaken to that point. The judge declared that the agreements on which the project had proceeded—the Principal Deed and the Joint Venture Agreement—were illegal and therefore "null and void".[62] The landowners' representatives were looking for "a good plantation company to replace Boustead".[63] See Chee How, a land rights lawyer, remarked that companies needed to work more closely with landowners rather than leaving this task to government agencies, remarking that "if you do it alone, you may win all or lose all. In the case of Boustead as well as in Gedong [which TH Plantations had acquired] and other cases, the companies lose all." However, the Court of Appeal overturned the High Court's decision in August 2014.

(d) Sime Darby. Sime Darby, a largely Malaysian government-owned conglomerate, is the result of the merger of three large and long-established Malaysian companies—Kumpulan Guthrie Bhd, Golden Hope Plantations Bhd, and Kumpulan Sime Darby Bhd—each of which had been acquired by the Malaysian government in the late 1970s and early 1980s under the New Economic Policy (Chapter 2).[64] The merger was the largest in Malaysian corporate history and created the world's largest plantation company, which was listed in November 2007 on the Bursa Malaysia. Its wholly owned subsidiary, Sime Darby Plantation Sdn Bhd, is the world's largest producer of certified sustainable palm oil with more than 60 per cent of its output RSPO-certified. Sime Darby Plantation Sdn Bhd has established about 48,000 ha of oil palm in Sarawak, mainly in 1997 and 1998 on state

land in the main oil palm belt between Miri and Bintulu; about 12 per cent of the planted area is on peatland. No significant land disputes have so far been reported regarding these Sime Darby leases.[65]

However, in 2008–09, Sime Darby was invited by the Sarawak government to take part in two *Konsep Baru* joint ventures on customary land—one in Julau and one in Kapit—totalling 26,200 ha. This was hailed at the time by the Ministry of Land Development as a significant breakthrough, given Sime Darby's status and the poor performance of the projects with previous investors. However, it emerged that the projects had in fact been awarded by the Ministry of Land Development to two newly formed shell companies with no track record in plantations—Nature Ambience Sdn Bhd and Vertical Drive Sdn Bhd—both of which were owned by a young and previously unknown local businessman, Chew Chiaw Ann, through several layers of proxy companies. Sime Darby paid a total of nearly MYR 102 million to acquire these two companies, announcing that this would enable it to enter into the development of customary land in Sarawak.[66] However, the Sime Darby CEO at the time, Ahmad Zubir Murshid, who stepped down in 2010, was arrested in 2012 and charged in the Kuala Lumpur High Court by the Malaysian Anti-Corruption Commission (MACC) for criminal breach of trust over this highly dubious plantation deal. There can be little doubt that Chew, who is the CEO of a construction company called Metro Sedia Sdn Bhd and who had already been awarded the title of "Datuk", was acting as the proxy for someone higher in the political food chain, allegedly the Chief Minister's son, Mahmud Abu Bekir Taib.[67]

(e) Tradewinds. In the 1970s, Tradewinds, originally a hotel development group, became a wholly owned subsidiary of Perbadanan Nasional Berhad (Pernas), one of two investment funds set up by UMNO to build up bumiputra equity as part of the New Economic Policy. Tradewinds was used as a vehicle to acquire foreign-owned plantation, mining, and property interests. In 1996, the company underwent partial privatisation through a management buyout but it was returned to government ownership soon after and subsequently, progressively sold to Mokhtar Al-Bukhary, an UMNO crony and one of Malaysia's richest men. In 2006, Tradewinds' plantation arm was merged with Johor Tenggara Oil Palm Bhd (also controlled by

Mokthar) and the combined entity was listed on the Bursa Malaysia as Tradewinds Plantation Bhd.

The company has leases of about 90,000 ha of oil palm estates in Sarawak spread from Samarahan Division in the south to Limbang Division in the north, much of it on peatlands, giving it the largest landholding of all peninsula-based companies. Its Sarawak holdings account for the majority of its overall land bank, though it is now also expanding in Indonesia. The Sarawak estates were obtained between 1996 and 2001 by acquiring control of existing companies that had been issued with provisional leases,[68] some of them linked to the aforementioned Naroden Majais, the Member for Simunjan and Assistant Minister for Land Development. Claims have been made by Malay and Iban landowners against the companies acquired by Tradewinds in Samarahan Division, notably, Kumpulan Kris Jati Sdn Bhd and Melur Gemilang Sdn Bhd, which between them hold provisional leases to around 24,000 ha in the Simunjan-Gedong area. But Tradewinds has managed to avoid the damaging judgements handed out to other peninsula-based companies. The claims against these companies were struck out in the High Court in January 2012 because of procedural delays due to lack of sufficient funds for legal representation.[69]

Among Tradewinds' acquisitions in 2008 was an area of 770 ha in Sungai Retus, near Sibu, which had been leased only weeks before to Masretus Plantations, owned by Taib's brother, Ibrahim Mahmud, and his sons. Ibrahim's company received MYR 7.5 million from Tradewinds for its MYR 0.5 million outlay to acquire the lease. The Iban claimants to this land were not initially aware that a provisional lease had been issued and when it came to court, they too were told they were too late to take action.[70]

(f) Tabung Haji. TH Plantations Berhad (THP) is the plantation arm of Lembaga Tabung Haji (TH), the Pilgrimage Fund Board of Malaysia (a quasi-government body to assist Muslims in saving and investing in order to undertake the Haj). THP has been engaged in oil palm and rubber plantations since 1972, has been a public company since 2005, and was listed on the Main Board of Bursa Malaysia in 2006. It currently has a total plantation land bank of about 91,000 ha in 37 estates in Peninsular Malaysia, Sabah, and Sarawak, as well as operating six palm oil mills. THP also now manages TH's oil palm operations in Indonesia, totalling about 84,000 ha. The company

specialises in oil palm plantations on peatlands. While a member of the RSPO, it is not seeking RSPO certification for any of its oil palm estates.[71]

THP's first foray into Sarawak was in 1996 with Ladang Sawit Bintulu Sdn Bhd, which was given a provisional lease to land along the Bintulu-Bakun Road in Sebauh District, Bintulu Division.[72] As with the Rimbunan Hijau case in Bakong (Cramb and Sujang 2011), the construction of a road through the hinterland of formerly riverine longhouse communities had opened up land considered part of the customary territories of long-established communities, even though this land had not necessarily been utilised for shifting cultivation before the introduction of the Land Code in 1958. Hence, several Iban longhouses in Sebauh challenged the validity of the lease, claiming it encroached on their customary land. In one case (brought by Rumah Usah), the claim was denied by the High Court in 2009 and again by the Court of Appeal in 2012. This case was complicated by the fact that seven of the claimants had been paid MYR 164,000 in compensation in 1999 and that the claimed land had been inside a forest reserve (hence, it had presumably been excised to issue the provisional lease). In a second case (brought by Rumah Agi in 2001), the claim was upheld by the High Court in a decision in 2010, which declared that the provisional lease over a disputed area of 1,214 ha was null and void.[73]

THP subsequently moved into peatlands in the lower Saribas basin in Betong Division. In 2006, THP paid MYR 51 million for an 80 per cent stake in Kenyalang Resources Sdn Bhd, renamed THP Saribas Sdn Bhd, from Zecon Bhd, a large bumiputra engineering company chaired by Hamid Bugo, former General Manager of LCDA, former Sarawak State Secretary, and a close associate of the Chief Minister. THP Saribas holds a provisional lease of about 10,000 ha of peatland near the town of Pusa. In the same year THP entered into a joint venture with LCDA (16 per cent) and SGOS Capital Holdings Sdn Bhd, a Sarawak government fund (24 per cent), to form TH Pelita Meludam Sdn Bhd, with a provisional lease to a further 6,000 ha of peatland. In 2008, then Deputy Prime Minister Najib Razak visited Pusa to declare open the two plantations and foreshadowed a much larger commercial land development in the region. At the same function, the Chief Minister said the government "would try to resolve problems pertaining to land faced by the people in a just manner

and give them adequate compensation."[74] However, the THP Saribas lease has continued to be subject to disputes over customary tenure, with three Iban groups filing cases in the High Court in 2010, 2011, and 2012 covering a combined area equal to nine per cent of the total lease. In February 2013, THP announced it was considering pursuing out-of-court options, including purchasing the rights to the land or arranging a joint venture with the claimants. The company had already invested MYR 82 million to develop the land. THP has also entered into a joint venture with LCDA on 1,577 ha of Malay customary land at Beladin, downriver from Pusa, with a 55 per cent share in TH Pelita Beladin Sdn Bhd. However, the land title had not yet been issued as of 29 March 2013.

As well as its Saribas investments, THP has a significant plantation area in the peatlands of the Sadong basin in Samarahan Division, alongside the companies acquired by Tradewinds mentioned above. These include a joint venture on nearly 10,000 ha of customary land through a 60 per cent share in TH Pelita Simunjan (for which DD Plantations was the original investor). THP also acquired a 70 per cent share in each of TH Pelita Gedong (7,400 ha) and TH Pelita Sadong (4,600 ha). This stake was originally held by DD Plantations and Nirwana Muhibbah Sdn Bhd, owned by Naroden Majais, and had been the subject of negotiations with IOI Corporation in 2008. As outlined above, the High Court in 2011 and 2012 upheld the claims of the Remun Iban to large parts of these estates, raising questions about how well informed the THP management was when it entered into these purchase agreements.

Nevertheless, in November 2011, THP bought a 70 per cent stake in Hydroflow Sdn Bhd, another controversial company linked to Naroden Majais.[75] Hydroflow, established in 1992, has provisional leases to 5,600 ha around Gedong in Simunjan District issued in 2004 and 2007, of which 700 ha had been planted with oil palm by 2011. About 100 Malay landowners were adversely affected by the leases, but 90 of them had made a deal with Hydroflow whereby they had a 30 per cent stake in the company via shares in a landholder company, Punggor Wibaha Bhd, also linked to Naroden. However, nine of the landholders had refused and, according to a 2009 report, employees of Hydroflow were engaged in violent intimidation of these holdouts (a tactic that has been used by other Naroden-linked plantation companies in Samarahan Division; *see* above).[76]

In August 2011, Hydroflow paid "interim dividends" to the landholder company at a function at the Chief Minister's residence; a "mock cheque" for the amount was handed over by Naroden.[77] As noted above, interim dividends, which become a charge against future dividends, have been paid in a number of troubled joint-venture projects in recent years to limit landholder discontent. However, the payments in this case amounted to less than MYR 80 per ha and the average area per shareholder was only 3.2 ha, hence they had received only about MYR 5 per ha per year for their land. THP bought over this politically charged operation at the end of 2011 for MYR 73.5 million. Allowing a market value of MYR 10,000 per ha for the undeveloped land, Maybank IB Research estimated that THP had paid MYR 80,000 per ha for the newly planted land (in its fourth year), which was at least twice its market value.[78] See Chee How, a land rights lawyer, seems to have been correct when he observed that "Sime Darby is not the only investor to have been ripped off by the web of (state) BN politicians' and cronies' companies. It is believed that other big companies such as Tabung Haji Plantations are also falling prey to such corrupt practices."[79]

(g) IOI. The IOI Corporation Bhd, owned by Lee Shin Cheng, another self-made businessman who is now one of Malaysia's wealthiest individuals, has 170,000 ha of oil palm estates in Malaysia (mostly in Sabah) and is one of the largest palm oil producers in the world, with oil palm estates in Malaysia and Indonesia as well as mills, refineries, and oleochemical plants. It is a founding member of the RSPO and 39 per cent of its oil palm estates are RSPO-certified. According to the company's website, "since inception, IOI has an entrenched policy on agri-sustainability and non-encroachment of natural forests in its quest to expand its plantation areas. None of IOI's existing oil palm plantation estates are developed new from alienated land or forest, but mostly acquired from third parties over the years with a generation or more of replanting."[80]

In 2006, as part of an expansion phase, IOI bought its way into the Sarawak oil palm sector when it was invited by LCDA to acquire 70 per cent equity in the financially struggling Rinwood Pelita Plantation Sdn Bhd, which had provisional leases to a 9,000 ha plantation along the Tinjar River in Miri Division. As noted above, Rinwood is a timber company within the Delta Group, owned by Foochow timber

tycoon Hii Yii Peng, who has close business connections to Taib. IOI bought Rinwood's shares, while LCDA retained its 30 per cent stake. However, Kayan claimants to some of the lands over which the original leases were issued had been engaged in a legal battle since 1997 to establish their customary rights to an area of about 3,280 ha (over a third of the estate), asserting they had been given the land by the Berawan of Long Jegan in 1964 and had been utilising it since then.[81]

In 2010, the High Court ruled in the claimants' favour and declared the leases over two of the lots "null and void" and that compensation should be paid (though, confusingly, the judge did not issue injunctions against the company as it had already "undertaken the development of the claimed area"). This left IOI in an embarrassing position, given its declared aspirations for sustainability. However, it appealed the decision, along with LCDA and the government, arguing it had received legal advice that the basis for granting the leases was sound. RSPO attempted mediation between the parties to this dispute without success. Meanwhile the Kayan claimants began harvesting the oil palm planted on the land they believed the High Court had declared was theirs. In February 2013, the Court of Appeal overturned the High Court's decision on the dubious basis that there was no evidence for the acquisition of customary rights by transfer from one group to another. The Court ordered the Kayan to pay costs to the company and the government as they had harvested fruit bunches from the disputed area to the value of MYR 26 million.[82]

Two years after its acquisition of Rinwood Pelita in 2008, IOI entered into a purchase agreement with Double Dynasty Sdn Bhd and Nirwana Muhibbah Sdn Bhd, Sarawak-based companies mentioned above as having close links to Taib, to buy a controlling interest in 44,000 ha of oil palm plantation land (of which an area of 13,500 ha was planted) in Samarahan and Bintulu divisions, for MYR 440 million.[83] Business analysts commented on this announcement that it was a logical extension of IOI's declared intention to expand its upstream investments in Malaysia and that, given it had a cash balance of MYR 1.64 billion, it could easily acquire the companies from its internal funds. Nevertheless, IOI decided to pull out of these negotiations, presumably because, as already described, these lands were also subject to customary land claims that were eventually upheld by the High Court. The Samarahan companies were subsequently bought by TH Plantations at an inflated price. As of 2012,

IOI Corporation listed its landholdings in Sarawak at only 9,000 ha, that is, the original Rinwood Pelita acquisition.[84] This compares with its 107,000 ha in Sabah.

Again, it is difficult to estimate the precise area of oil palm planted by these peninsula-based companies, given their tendency to buy varying shares in existing concerns which may or may not change names along the way. However, given that they are all public companies, these transactions are much more transparent than for many of the Sarawak-based concerns, being recorded in announcements to the Bursa Malaysia, company annual reports, and detailed evaluations by investment analysts. A reasonable figure is that the aggregate planted area attributable to companies from the Peninsula was about 255,000 ha in 2012, which was 24 per cent of the total planted area and 27 per cent of the area in oil palm estates.

LARGE-SCALE SCHEMES FOR SMALLHOLDERS

Before the post-1981 push for private estate development, two government agencies had been established specifically to develop oil palm estates for smallholders using a "managed smallholder" approach (as defined in Chapter 2). The Sarawak Land Development Board (SLDB) focused on developing state land for resettlement schemes while the Sarawak Land Consolidation and Rehabilitation Authority (SALCRA) was set up to develop Native Customary Land for landholders in situ. In the Taib era, the activities of these agencies were both subordinated to the policy favouring large-scale private estates, but in different ways.

Resettlement Schemes

The SLDB was established in 1972 to carry out projects "for the development and settlement of land in the State of Sarawak", analogous to FELDA's initial approach in the Peninsula (Fold 2000; Chapter 2). SLDB proceeded to develop extensive areas in the Northern and Central Regions for oil palm, primarily on "unencumbered" State land, though it did resume Native Customary Land in the Mukah District (Awang Zain 1986). The original policy was that these land schemes would be subdivided following crop establishment, with titles issued to individual settlers drawn from the three major ethnic groups—Malays, Iban, and Chinese. In particular, it intended to relocate Hakka

Chinese and Iban farmers from border areas in Samarahan and Sri Aman Divisions in southern Sarawak who were subject to influence from the then-active Sarawak Communist Organisation (SCO) (Porritt 2004). While some Iban communities were keen to move, the designated Malay and Chinese communities resisted and their political representatives lobbied to have the resettlement policy overturned. As the government did not want the scheme to be an exclusively Iban affair, in 1974 it was decided to freeze settler recruitment and the issuing of titles; the promises made to the Iban settlers were not upheld.[85] From that point, the schemes were run on conventional estate lines.

By 1980, just before Taib became Chief Minister, SLDB had established over 15,500 ha of oil palm and cocoa (Awang Zain 1986). However, it was making substantial losses and carried major liabilities. King (1986) attributed the board's financial problems to poor management, inadequate accounting procedures, poor field supervision, frequent breakdowns in machinery and plant, and inadequate infrastructure. The board itself identified the shortage and high turnover of local labour as a prime constraint. The Taib government moved in stages to privatise SLDB's assets. In 1986, the management of SLDB was contracted to Sime Darby, and it soon reported improved financial performance (mainly by relocating from Kuching to Miri and thereby shedding staff). In 1993, it was corporatised, with management now in the hands of Sarawak Plantation Services (SPS), a group of Sarawakian business professionals. In 1997, the government approved a proposal for the privatisation of SLDB's assets (estates and mills) and in 2000, its assets were transferred to Sarawak Plantation Bhd (SPB), a company set up to facilitate a management buyout, in return for which the government acquired the majority of the company's shares. It was listed on the Bursa Malaysia in August 2007. At that time, the Sarawak government owned 38 per cent of the shares through various foundations, and Cermat Ceria Sdn Bhd, a company owned by Taib's cousin, Hamed Sepawi, and Hasni Hasnam, had 37 per cent. The general manager announced plans to secure 30,000–50,000 ha of land in Indonesian Borneo for further expansion of oil palm. This has not eventuated, though there has been some expansion in Sarawak. Hamed Sepawi is now chair of the board.[86]

By 2012, SPB had 27,719 ha under oil palm in 14 estates, mainly the legacy acquired from SLDB. This included a joint-venture project

with LCDA on 1,885 ha of customary land owned by Penan landholders at Jambatan Suai (SPB Pelita Suai). The average yield for the group was still only 13 tons/ha, attributed (as it was in 1986) to disputes with landholders in Mukah (still aggrieved by the initial acquisition of their customary land by SLDB and the subsequent expansion of the planted area onto surrounding land) and the inability to harvest the Jambatan Suai estate due to ongoing landholder disputes.

Thus the SLDB, originally set up as a land development and settlement agency for smallholders, had been transformed into a large-scale commercial plantation company controlled by Hamed Sepawi. In an apparent attempt to justify its role as the inheritor of SLDB's now valuable assets, SPB declares on its website that "the primary functions of SLDB are the development of large-scale agriculture in the form of oil palm plantations in Sarawak with the objective of creating employment opportunities, increas[ing] income and improv[ing] the standard of living of the rural community."[87] It is instructive to compare this with SLDB's original purpose—the development of land for settlers has been erased from the official narrative. Whereas SLDB in the 1970s created some employment for Sarawakians, it has for some time now depended largely on Indonesian workers for its plantation labour force.

In Situ Schemes

While SLDB was developing oil palm schemes without smallholders in the Northern and Central Regions, an alternative approach was initiated in the longer-settled and more densely populated areas of the Southern Region. SALCRA was established in 1976, primarily to develop Native Customary Land "for the benefit of the owners". That is, its focus was on in situ development rather than resettlement. SALCRA's mode of operation was to borrow public and donor funds for the capital costs of oil palm development. The costs were charged to the participants who progressively paid back the amount and in time received the net proceeds from the sale of their fruit. After taking adequate steps to "ascertain the wishes of the owners", SALCRA can declare a tract of land to be a "development area", thereby giving it powers to develop the land. However, the inclusion of land within such a development area helps to confirm existing customary rights,

as the SALCRA Ordinance requires it to survey the land and, on completion of the development, the right-holders are to be issued with titles.[88]

In the 1970s and 1980s, SALCRA initiated land development projects in some of the poorer and more remote parts of Sarawak's Southern Region, with oil palm the dominant crop. Its earliest and largest project was the Lemanak Oil Palm Scheme, which began producing a return in 1985 after considerable delay in getting the palm oil mill operating. Despite concerns about SALCRA's capacity, it was given responsibility for oil palm development in the Kalaka-Saribas Integrated Agricultural Development Project in the mid-1980s. The controversy surrounding land issues at this time made it difficult for SALCRA to negotiate with Dayak landholders, hence development was delayed and the oil palm area was fragmented. Eventually over 10,000 ha were planted, titles issued, and net proceeds paid to the landholders.

By 2011, SALCRA had established nearly 50,000 ha of oil palm, involving over 12,500 participants. While initially the labour was provided by the landholders, Indonesian workers are now employed in most cases. The authority is now managed by a team drawn from the Sarawak Plantation Services (SPS) group that had managed SLDB prior to its privatisation. Though the agency continues to be plagued by allegations of inefficiency and corruption and criticised for its role as a political vehicle for Deputy Chief Minister, Alfred Jabu Numpang (Thien 2005), high palm oil prices and the steady payment of "net proceeds" have eased many of the participants' concerns, and there is unmet demand from some upriver Iban communities (Cramb 2015). However, SALCRA's growth beyond the Southern Region has been blocked by Taib, with priority being given to joint-venture projects under the *Konsep Baru* policy.[89] Hence, the agency is consolidating and replanting its current areas.

The Federal Land Consolidation and Rehabilitation Authority (FELCRA) also undertakes in situ schemes for smallholders in Sarawak and had established nearly 27,000 ha by 2011. This is mostly in downriver (Malay) areas on titled land; only a quarter involves untitled customary land. In total, the area of land developed as group or managed smallholdings by SALCRA and FELCRA totalled over 75,000 ha by 2011.

CONCLUSION

Large-scale capitalist plantations or estates have played a minor role throughout most of Sarawak's agrarian history. Rather, the local agricultural economy has been based largely on village-based smallholdings throughout the colonial period and for several decades after the formation of Malaysia. Customary land has provided the basis for a mixture of subsistence activities and smallholder export crops, notably rubber and pepper. Whereas something resembling the concept of a "dual economy" could be discerned in Peninsular Malaysia and Sabah, this was not the case in Sarawak before the 1980s.

From 1981, in response to the global demand for palm oil, pressure from private plantation and timber interests, and the associated opportunities for surplus extraction and political patronage, Taib Mahmud set out to *create* a dual agricultural economy in Sarawak where there had been none before, "reinventing" dualism not only in rhetoric but in reality. To do so, he promulgated a policy that focused on delivering extensive tracts of state and customary land to private estates and importing low-wage Indonesian labour, while minimising the potential for various modes of smallholder expansion, including independent, supported, and managed smallholdings. The policy narrative justifying this transformation has focused on the "new concept" of using joint ventures to bring the "natives" (with unlimited supplies of idle land) into the modern sector or mainstream of development. In fact, this mode of expansion has contributed only six per cent of the total oil palm area, less than the area in various forms of smallholding.

The main game, rather, has been to facilitate the transfer of land to the rapidly expanding private estate sector, which accounts for nearly 80 per cent of the oil palm area. This strategy creates the maximum opportunities for surplus extraction and patronage through the allocation of land leases, timber licences, business contracts, directorships, consultancies, and shareholdings. Smallholder oil palm, while helping to reduce rural poverty, provides insufficient incentives for private capital and therefore, insufficient opportunities for rent-seeking politicians, bureaucrats, and the *ersatz* business class (comprising relatives and associates of the first two sets of actors). The policy narrative trumpets the role of the state in unleashing the dynamism of the modern sector on behalf of its backward citizens while concealing the true nature of the agrarian transition underway.

The conversion of agricultural and forest lands to large-scale oil palm plantations in Sarawak can seem to be an inexorable process of "agricultural expansion", driven by global economic forces. This examination of the political economy of oil palm expansion in Sarawak has shown that it is a process with various potential pathways and outcomes; that it involves contestation between actors within the state, within rural communities, and between state and community spheres; and that it is ultimately influenced by the exercise of ideological, political, legal, and economic power to redistribute access to land and forest resources.

NOTES

1. A previous version of this chapter was published as Rob Cramb, *A Malaysian Land Grab? The Political Economy of Large-Scale Oil Palm Development in Sarawak*. LDPI Working Paper No. 50. The Hague: Institute of Social Studies, 2013. It is reproduced here with permission.
2. Chief Minister's Speech to Dewan Undangan Negeri (State Legislative Assembly) Sarawak, reported in *Sarawak Tribune*, 11 Nov. 1994, p. 10.
3. K.C. Jong, "A year focused on an overwhelming problem", *Borneo Bulletin*, 10 Apr. 1982, p. 11.
4. Hanim Adnan, "IOI buying into Sarawak firms", *The Star Online*, 19 Mar. 2008. http://biz.thestar.com.my/news/story.asp?file=/2008/3/19/business/20687125&sec=business (accessed 20 June 2013).
5. In a study of land cover change from 1972 to 2002 in the Niah catchment in the heart of the northern oil palm belt, Hansen (2005) found that 86 per cent of the oil palm area that could be classified had been converted from forest and 12 per cent from shifting cultivation lands. For Sarawak as a whole, the percentage converted from forest would be slightly lower, allowing for smallholdings and government schemes on customary land previously used for shifting cultivation. Wetlands International (2010) cites a figure of 300,000 ha of peatlands in Sarawak under oil palm in 2008.
6. There were only ever five rubber estates in Sarawak and these were all disbanded after World War II (Cramb 2011).
7. This section draws heavily on Cramb (2011).
8. Taib now occupies the putatively ceremonial position of State Governor or Yang di-Pertua Negeri.
9. K.C. Jong, "A year focused on an overwhelming problem", *Borneo Bulletin*, 10 Apr. 1982, p. 11.
10. *Sarawak Tribune*, 9 Dec. 1984.

11. *Sarawak Tribune*, 11 Nov. 1994, p. 10.
12. *Sarawak Tribune*, 21 June 2001.
13. The term "native" was first introduced in Sarawak during the Brooke regime, mainly to contrast indigenous ethnic groups (Muslim and non-Muslim) with immigrant Chinese, whose access to land both Brooke and British colonial governments sought to restrict. Taib's use of the term to refer to backward rural Dayaks is somewhat ironic and reminiscent of colonial prejudices.
14. *Sarawak Tribune*, 11 Nov. 1994, p. 10. It is important to note that "people from the interior" do not occupy land suitable for oil palm estates. Rather, joint-venture schemes are being proposed for communities in the midland zone where commercial smallholder agriculture is already well developed and hence, the economy cannot be regarded as "outdated".
15. *Sarawak Tribune*, 11 Nov. 1994, p. 10.
16. While Auty (2001) specifically cites Malaysia, with its supposedly "consensual democracy", as a rare exception to the tendency for resource-abundant economies to spawn predatory states, others such as Case (1993) have more accurately characterised Malaysia as a "semi-democracy" in which the state apparatus at the federal level is tightly controlled by the dominant party (UMNO) in pursuit of rents. In Sarawak, power has been concentrated in the hands of a single "super-patron" (Taib Mahmud) and his party (PBB), enabling the implementation of land laws and policies that have been adverse to the rural population, without effective opposition.
17. K.C. Jong, "A year focused on an overwhelming problem", *Borneo Bulletin*, 10 Apr. 1982, p. 11.
18. By this time, FELDA was focused on opening up "estates" rather than "settlement schemes" and was thus effectively a state-owned and managed plantation company rather than a settlement agency (Fold 2000).
19. This estimate is based on the following assumptions: one worker for every 6 ha planted (Abdullah 2011); a total planted area of just over 1 million ha; four in every five oil palm workers are Indonesians; total employment in the agricultural and forestry sectors is 274,000 (Agricultural Statistics of Sarawak 2011). The Department of Labour estimated a figure for June 2012 of 98,092 (i.e., about 100,000) working in oil palm plantations, while Philip Ho, Secretary of the Sarawak Oil Palm Plantation Owners' Association (SOPPOA), estimated that 80 per cent of plantation workers were Indonesians (Wong 2013), implying about 80,000 Indonesian plantation workers. The Indonesian Consulate in Kuching, however, estimates a much higher figure, closer to the estimate of 139,000 given here, confirming anecdotal evidence that there are many unregistered workers.

20. The practical implications of this distinction can be very significant. For example, in a case brought by two Iban longhouse communities against Kanowit Timber Company Sdn Bhd, the company had argued that the customary land in question was restricted to an area of 2,712 ha that had been used for shifting cultivation before 1958, whereas the landowners claimed the total territory (*pemakai menoa*) was 5,512 ha. The High Court and the Court of Appeal upheld the validity of the landowners' territorial claim. *See* "Sarawak loses appeal over NCR land decision", *Hornbill Unleashed*, 23 June 2013. Available at http://hornbillunleashed.wordpress.com/2013/06/23/47345/ (accessed 28 June 2013). It is easy to see how the official estimate of the extent of Native Customary Land in Sarawak is around half that of estimates based on the more inclusive concept of customary territorial rights.
21. Philip Ho, Secretary of the Sarawak Oil Palm Plantation Owners' Association (SOPPOA), recently cited land values of MYR 12,000 per ha for unplanted land, compared with MYR 7,000–10,000 per ha in 2008 (Wong 2013).
22. Section 28 of the Land Code states: "…when the immediate survey of any State land is impracticable, the Superintendent may order that a provisional lease…be executed in favour of the person entitled. Every provisional lease shall specify the approximate extent and area of the land included therein but shall not entitle the holder to a grant or lease of the whole of the area specified" (Land Code, Chapter 81, Laws of Sarawak, National Printing Office, Kuching). The standard lease document itself states clearly in Section 1 (iii): "The holder of this provisional lease shall not be entitled to a lease of an area equal to the area above stated but only to such an area as the survey shows to be available." The document ends with the following statement: "NOTE: THIS IS NOT A TITLE TO LAND" (*see* copy of lease document in "Gangster State!" *Sarawak Report* 19 Aug. 2012. http://www.sarawakreport.org/2012/08/gangster-state/, accessed 31 May 2013).
23. *Sarawak Tribune*, 11 Nov. 1994, p. 11.
24. Another mechanism for making forested land available for plantations has been to administratively excise areas from the Permanent Forest Estate, including Forest Reserves, Protected Forest, and National Parks, thus converting the area to state land. In some cases, customary land has been declared a Protected Forest, only to be excised a decade or so later as state land over which PLs have been issued without reference to the original customary owners. *See* "Raziah raids Reserve Forest lands and Taib profits", *Sarawak Report*, 14 Jan. 2011. http://www.sarawakreport.org/2011/01/raziah-raids-reserve-forest-lands-and-taib-profits-major-exclusive/ (accessed 28 June 2013).

25. "Licence holders told to quickly plant one million hectares of forests", *The Star Online*, 2 Oct. 2012, http://thestar.com.my/news/story.asp?file=/2012/10/2/sarawak/12110249&sec=sarawak (accessed 23 May 2013).
26. "Planted Forest", Forest Department Sarawak website, http://www.forestry.sarawak.gov.my/modules/web/page.php?id=1008&menu_id=0&sub_id=243 (accessed 23 May 2013).
27. In this respect, the Forest Department has less flexibility than the Lands and Survey Department as the Forests Ordinance stipulates that "no licence shall be issued until such rights by the natives have been settled or extinguished in accordance with the Ordinance or the Land Code". Whether this is the case in practice is doubtful. "Planted Forest", Forest Department Sarawak website, http://www.forestry.sarawak.gov.my/modules/web/page.php?id=1008&menu_id=0&sub_id=243 (accessed 23 May 2013).
28. This figure includes estates established by FELDA Bhd, the privatised estates of the Sarawak Land Development Board, now owned by Sarawak Plantation Bhd, and joint-venture companies with LCDA on both State and customary land, but excludes SALCRA and FELCRA schemes on customary land.
29. Such a joint venture (GP PUSAKA Sdn Bhd) was announced by STIDC in October 2015 between Grand Perfect, a private company jointly owned by three of the largest timber groups in Sarawak, and PUSAKA, with Grand Perfect holding a 70 per cent stake and PUSAKA 30 per cent. The joint-venture company holds Licence for Planted Forest 0043. Available at http://www.sarawaktimber.gov.my/modules/web/pages.php?mod=news&sub=news_view&menu_id=&sub_id=&nid=13, accessed 20 Oct. 2015.
30. Undeveloped land suitable for oil palm was valued at MYR 7,000–10,000 in 2008 (Wong 2013), hence the notional value of MYR 1,200 per ha was only 10–20 per cent of the market value.
31. Compare this with the 80 per cent stake given to plantation companies under the more recent *kemitraan* arrangements in Indonesia (Chapters 3 and 4).
32. Global Witness, *Inside Malaysia's Shadow State: A Film by Global Witness*, http://www.globalwitness.org/insideshadowstate/ (accessed 3 May 2013).
33. An additional way to capture part of the economic rent from oil palm development, whether on state land or Native Customary Land, is for an agent of the Chief Minister or another political actor to demand an upfront payment (or facilitation fee) from the potential investor for approving a lease or setting up a joint-venture agreement. Global Witness exposed this (alleged) practice with regard to the Chief Minister (Global Witness, *Inside Malaysia's Shadow State: A Film by Global Witness*, http://

www.globalwitness.org/insideshadowstate/, accessed 3 May 2013). *Sarawak Report* revealed an astounding case in which the state representative for Begunan (a party colleague of the Minister for Land Development) issued a letter outlining the minimum fee to be paid by an investor to his agent for setting up a joint venture on about 28,000 ha of customary land in his constituency (the total fee amounting to at least MYR 70 million) and identifying three shell companies (with unintentionally ironic-sounding names such as "Noble Rewards") that were to be involved in any joint venture, the principal shareholders of which were relatives and associates of the Minister for Land Development and the Member for Begunan ("Depraved Datuks—new shocking evidence against Mong and Masing", *Sarawak Report*, 17 Mar. 2012, http://www.sarawakreport.org/2012/03/depraved-datuks-new-shocking-evidence-against-mong-masing/, accessed 19 June 2013).

34. In the Malaysian judicial system there are two High Courts, one for Peninsular Malaysia and one for Sabah and Sarawak, that sit below the Court of Appeal and the Federal Court. The High Courts have unlimited jurisdiction (except in criminal matters involving Islamic law). Cases are heard by a single judge. *See* "Judiciary of Malaysia", *Wikipedia*, http://en.wikipedia.org/wiki/Judiciary_of_Malaysia (accessed 28 June 2013).
35. K.C. Jong, "A year focused on an overwhelming problem", *Borneo Bulletin*, 10 Apr. 1982, p. 11.
36. One of Taib's achievements, in the eyes of his supporters, was to retain control of state patronage for Sarawakians, whether Chinese or bumiputra, and to keep at bay the voracious business machine established by UMNO in the Peninsula (and latterly in Sabah) (Gomez and Jomo 1999).
37. Sarawak is now divided into ten administrative divisions which are, from south to north, Kuching, Samarahan, Sri Aman, Betong, Sarikei, Sibu, Kapit, Bintulu, Miri, and Limbang (*see* Figure 6.1). Land development agencies also refer to three regions—Southern (including the first four divisions above), Central (the next two divisions), and Northern (the last three divisions).
38. Clifford Sather, pers. comm., 31 May 2011. Sather, an anthropologist who has completed detailed research on Iban and Bajau societies, was a consultant for the MBRPS, along with the late Stephen Morris, the foremost ethnographer of the Melanau. The Iban and Melanau were the major ethnic groups in the area considered by the MBRPS.
39. The SOP website reports a planted area of 72,653 ha, including 1,559 ha in a joint-venture scheme on customary land at Ulu Undup in Southern Sarawak.
40. Pelita Holdings, a subsidiary of LCDA, owns a 28.5 per cent share.

41. Ta Ann stands out as having been established by a Melanau, Hamed Sepawi, a professionally trained forester who is also Taib's cousin and close business associate.
42. Jack Wong, "Planters hit by illegal harvesting", *The Star Online*, 5 Aug. 2011, http://biz.thestar.com.my/news/story.asp?file=/2011/8/5/business/9239556 (accessed 28 June 2013); Joseph Tawie, "Guns, threats won't scare us, say natives", *FMT News*, 6 July 2012, http://www.freemalaysiatoday.com/category/nation/2012/07/06/guns-threats-wont-scare-us-say-natives/ (accessed 28 June 2013).
43. "Taib's cousin Sepawi lashes out at Baru over corruption allegations", *Hornbill Unleashed*, 14 Sept. 2011, http://hornbillunleashed.wordpress.com/2011/09/14/23347/ (accessed 28 May 2013).
44. "Mesti Bersatu"—another unintentionally ironic company name, can be interpreted to mean "we must stick together".
45. Presumably this linking of two Foochow family conglomerates is the inspiration for the name "Double Dynasty".
46. Mutiara Hartabumi was approved in 2007 to develop 30,000 ha in Sebauh (Bintulu Division) as a *Konsep Baru* joint venture with 780 landowners.
47. "DD Pelita Sebungan Plantation ngungkupka RM8.7 miliun dividen", *Borneo Post Online (Berita Iban)*, 22 June 2012, http://www.theborneopost.com/2012/06/22/dd-pelita-sebungan-plantation-ngungkupka-rm8–7-miliun-dividen/ (accessed 24 May 2013).
48. Joseph Tawie, "Court orders company to pay natives", *FMT News*, 23 Feb. 2011. Available at https://www.freemalaysiatoday.com/category/nation/2011/02/23/court-orders-company-to-pay-natives/ (accessed 29 May 2013); Judgment of Linton Albert, J., Suit no. 22–43–2002–1, High Court of Sabah and Sarawak at Kuching, 21 Feb. 2011. Available at http://www.highcourt.sabah.sarawak.gov.my/apps/highcourt/v3/modules/highcourt_web/ (accessed 30 May 2013).
49. Joseph Tawie, "Farmer slashed by Taib-linked men", *FMT News*, 17 Mar. 2013. Available at https://www.freemalaysiatoday.com/category/nation/2013/03/17/farmer-slashed-by-taib-linked-men/ (accessed 29 May 2013).
50. Interview with Nicholas Mujah, landholder advocate with Sarawak Dayak Iban Association (SADIA), following a village meeting in Kampung Sungai Tenggang, Pantu District, Aug. 2008.
51. "NCR Landowners' biggest dilemma", *Broken Shield*, Dec. 2009, http://thebrokenshield.blogspot.com.au/2009/12/ncr-land-owners-biggest-dilemma.html (accessed 24 June 2013). Initially, IOI Corporation was the intended purchaser, but as with the proposed transactions with Double

Dynasty, it eventually thought better of it. No doubt, landholder discontent and the prospect of further defeats in the High Court were a factor in the decision to pull out.

52. Cited in Stephen Tiong, "Judgment on 'illegal' Sarawak oil palm estate stayed", *Malaysiakini*, 9 Mar. 2011, http://www.malaysiakini.com/news/158150 (accessed 20 June 2011).
53. "Judgment on 'illegal' Sarawak oil palm estate stayed", *Hornbill Unleashed*, 9 Mar. 2011. Available at http://hornbillunleashed.wordpress.com/2011/03/09/15917/ (accessed 28 May 2013); Kim Loong Resources, Interim Financial Statement to Bursa Malaysia, Jan. 2013. Available at http://announcements.bursamalaysia.com/EDMS/edmswebh.nsf/all/D7C33018DBD1960F48257AF8005D72C4/$File/KLR-Notes%20-%203Q-FY2013.pdf (accessed 28 May 2013).
54. The 689,000 ha figure is derived from company websites and from data compiled by Faeh (2011). Much larger figures are often quoted for company "land banks" or plantation land "owned". However, care has been taken to include only planted area in this estimate.
55. The classic example is Robert Kuok, founder of Perlis Plantations, who was a classmate of Tunku Abdul Rahman and Lee Kuan Yew at Raffles Institution.
56. K.C. Jong, "A year focused on an overwhelming problem", *Borneo Bulletin*, 10 Apr. 1982, p. 11.
57. Hanim Adnan, "IOI buying into Sarawak firms", *The Star Online*, 19 Mar. 2008. Available at http://biz.thestar.com.my/news/story.asp?file=/2008/3/19/business/20687125&sec=business (accessed 20 June 2013).
58. Jenny Ng, "CBIP to sell stakes in plantation associates and JVs", *The Edge*, 16 Aug. 2010, http://www.theedgemalaysia.com/index.php?option=com_content&task=view&id=173156&Itemid=121 (accessed 8 June 2013).
59. Interview with Hamid Bugo, General Manager of LCDA, Apr. 1985.
60. "Wilmar becomes the first plantation company in Sarawak to be RSPO-certified", *CSR Tribune*, July 2010. Available at http://www.wilmar-international.com/wp-content/uploads/2012/11/WilmarCSRtribune3.pdf (accessed 27 May 2013).
61. Reported in *The Broken Shield*, www.thebrokenshield.blogspot.com, 11 Oct. 2009.
62. High Court in Sabah and Sarawak, Case No. 21–7-2009, Kadam ak Embuyang and 3 others vs. Pelita Holdings Sdn Bhd and 4 others, Judgement by Justice Datuk Yew Jen Kie, 30 Apr. 2012.
63. Joseph Tawie, "Court rulings strengthen native rights on NCR", FMT News, 10 May 2012. Available at https://www.freemalaysiatoday.com/category/nation/2012/05/10/court-rulings-strengthen-native-rights-on-ncr/ (accessed 4 June 2013).

64. Sime Darby is majority-owned by several Malaysian government funds and agencies. As of 31 December 2012, the equity was 52.3 per cent held by Permodalan Nasional Bhd (PNB), both directly and through unit trust schemes managed by PNB, and 11.9 per cent by the Employees' Provident Fund (EPF).
65. A minor dispute over its Semarak Estate near Bintulu was settled in court with 20 ha being managed on a joint-venture basis with the Iban claimants. Molly Tugan, "Longhouse folks all for Tiong in the election", *New Sarawak Tribune*, 28 Apr. 2013, http://www.newsarawaktribune.com/news/4011/Longhouse-folks-all-for-Tiong-in-the-election/ (accessed 24 June 2013).
66. "The acquisition will enable the Sime Darby group to develop oil palm plantations in Sarawak NCR development scheme", *Palm Oil News*, Dec. 2009. Available at http://www.palmoilhq.com/PalmOilNews/sime-darby-acquires-sarawak-company/ (accessed 21 May 2013).
67. Keruah Usit, "Sime Darby scandal implicates youthful Datuk", *1Christians Malaysia*, 1 Aug. 2012. Available at http://1christians.blogspot.com.au/2012/08/sime-darby-scandal-implicates-youthful.html (accessed 27 May 2013).
68. Tradewinds Corporation Berhad, Annual Report 2005. Available at http://www.tradewindscorp.com/AR_05/reports/ar05.pdf (accessed 3 Mar. 2014).
69. According to the website *Hornbill Unleashed*, "some of the Malays in Gedong, inlcuding Naroden's relatives, are suing Melor Gemilang for taking away their land. Naroden is alleged to have shares in the company." Available at http://hornbillunleashed.wordpress.com/2010/09/28/10039/ (accessed 24 Jun. 2013).
70. "Taib steals for brother Ibrahim", *Movement of Change Sarawak*, 19 Jan. 2011. Available at http://mocsarawak.wordpress.com/2011/01/19/taib-steals-for-brother-ibrahim/ (accessed 24 Jun. 2013).
71. TH Plantations, Annual Report 2012. Available at http://ir.chartnexus.com/thplantation/doc/ar/ar2012.pdf (accessed 2 Mar. 2014).
72. In fact, Ladang Sawit Bintulu Sdn Bhd was owned by TH itself. With restructuring of the Group, LHP formally took over the management in 2005.
73. "Oil palm firm told to return land to Ibans", *The Star Online*, 22 Jan. 2010. Available at http://thestar.com.my/news/story.asp?file=/2010/1/22/courts/5525543&sec=courts (accessed 1 Jun. 2013).
74. Bernama, "Pusa poised to be nucleus of commercial land development", 4 Mar. 2008. Available at http://www.bernama.com/bernama/state_news/bm/news.php?id=318451&cat=ut (accessed 30 Nov. 2013).
75. THP bought the 70 per cent stake from Sawit Green Sdn Bhd, a dormant company established in 2002, with two directors, Kong Goon Siong and

Kong Goon Khing, whom *Sarawak Report* has shown are proxies for Naroden Majais.

76. C.K. Chew Blog, 21 Mar. 2009, http://ckcounterpunch.wordpress.com/2009/03/21/native-land-grab-samseng-from-bn-on-the-prowl-in-sarawak-man-with-kebal-power-survives-knife-attack/ (accessed 31 May 2013).
77. "RM784,750 Raya windfall", 25 Aug. 2011, Official Website of the Chief Minister of Sarawak. Available at http://www.cm.sarawak.gov.my/en/media-centre/news/view/rm784–750-raya-windfall (accessed 4 Jun. 2013).
78. Maybank IB Research, 14 Nov. 2011. Available at http://upload.xinhua08.com/2011/1114/1321248632230.pdf (accessed 3 June 2013). THP continued its expansion in 2013, acquiring a 100 per cent stake in Bumi Suria Ventures Sdn Bhd (with 5,710 ha in Sibu and Bintulu Divisions) and Maju Warisanmas (810 ha) from Weida Bhd, a large Malaysian engineering company that had acquired the companies in 2007. In this case it paid MYR 39,100 per ha for land which was 80 per cent planted, considered a more reasonable purchase than its Simunjan acquisitions.
79. Keruah Usit, "Sime Darby scandal implicates youthful Datuk", *1Christians Malaysia*, 1 Aug. 2012. Available at http://1christians.blogspot.com.au/2012/08/sime-darby-scandal-implicates-youthful.html (accessed 27 May 2013).
80. IOI Group website, http://www.ioigroup.com/business/busi_millsestates.cfm (accessed 4 June 2013).
81. The Berawan are recognised as an ancient ethnic group in the area, whereas the Kayan had moved in more recently from upriver. There are in fact many precedents in Sarawak's history of territories being transferred from one ethnic group to another or divided between two groups (Cramb 2007).
82. "Government, IOI-LCDA win appeal", *Borneo Post Online*, 5 Feb. 2013. Available at http://www.theborneopost.com/2013/02/05/government-ioi-lcda-win-appeal/ (accessed 5 June 2013); Khor Reports, 22 Mar. 2013. Available at http://khorreports-palmoil.blogspot.com.au/2013/03/sarawak-controversies.html (accessed 30 May 2013).
83. Hanim Adnan, "IOI buying into Sarawak firms", *The Star Online*, 19 Mar. 2008. Available at http://biz.thestar.com.my/news/story.asp?file=/2008/3/19/business/20687125&sec=business (accessed 20 June 2013).
84. IOI Group website, http://www.ioigroup.com/business/busi_millsestates.cfm (accessed 4 June 2013).
85. Pers. comm., Sidi Munan, 24 May 2007. Sidi was Secretary of SLDB at the time.
86. The entity SLDB still exists under the Ministry of Land Development. In 2012, it managed three oil palm mini-estates totalling 1,006 ha.

87. From Sarawak Plantation Berhad website, http://www.spbgroup.com.my/history.htm (accessed 3 Oct. 2007). At one stage the website trumpeted the wonderfully ambiguous motto, "We can do better!"
88. These are so-called Section 18 titles, granted to the holder of native customary rights in perpetuity.
89. This block had been partly lifted by 2008, though only for the remote Kapit Division, which was unattractive to commercial investors.

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CHAPTER 7

Oil Palm Smallholders and State Policies in Sarawak[1]

Rob Cramb and Patrick S. Sujang

Sarawak is regarded as the last frontier for oil palm expansion in Malaysia, following the effective closure of the frontier in Peninsular Malaysia and in Sabah to the north (Fold 2000, Sutton 2001, McCarthy and Cramb 2009). From 23,000 ha in 1980, the area planted with oil palm in Sarawak had increased more than fortyfold to over 1,000,000 ha by 2013 (Department of Agriculture 2013). Oil palm now accounts for about 8 per cent of the total land area of Sarawak and 70 per cent of the area under agricultural crops; the area planted continues to grow at around 10 per cent per year. As described in Chapter 6, the Sarawak government under its powerful and enduring Chief Minister Abdul Taib Mahmud has in the past three decades pursued a policy that favours large-scale estates over smallholder production, articulating a dualistic vision that has rapidly become an empirical reality.[2] Thus, Sarawak's agricultural sector, once almost exclusively in the hands of smallholders, has been transformed by politico-legal means into one that is dominated by private estates. Hence, most oil palm plantations (80 per cent) have been established by private companies (or privatised government agencies) holding long-term leases over state land (though claims to customary ownership are being pursued in perhaps a quarter of these leases). As profitable opportunities for developing state land have been taken up, attention

has increasingly turned to the development of areas officially recognised as native customary land.[3]

The Taib government's view was that the only viable way to involve smallholders in the oil palm boom was to consolidate their land into larger production entities with externally provided management and finance, whether following the "managed smallholder" approach typified by the Sarawak Land Consolidation and Rehabilitation Authority's (SALCRA) schemes, or the "joint-venture" approach as managed by the Land Custody and Development Authority (LCDA) (Ngidang 2002, Cramb 2011a, Cramb and Ferraro 2012; Chapter 6). The Chief Minister stated in 1984, "My vision for the next 20 years is to see modern agricultural development along the major trunk road with rows of plantations and villages well organised in centrally managed estates with a stake of their own in them."[4] His government has been remarkably persistent in pursuing this vision, particularly since the launch of its *Konsep Baru* (New Concept) policy in the mid-1990s, which promoted the joint-venture approach (Ngidang 2002). This overt push to incorporate native customary land in joint ventures with plantation companies has been associated with covert pressure on various agencies to curtail measures to assist smallholders directly, in order to leave as much land as possible for the private sector to develop (Cramb 2011a).[5]

However, the area of smallholder oil palm has increased dramatically in the past decade, from 9,000 ha in 2001 to 96,000 ha in 2013 (Figure 7.1), a compound growth rate of 20 per cent. This compares with negligible growth in SALCRA's planted area over the same period (largely due to a policy decision to consolidate SALCRA's operations in southern Sarawak) and growth of around 10 per cent in the area under LCDA's joint-venture schemes (Figure 7.1). In absolute terms, the annual increment in area planted by independent smallholders (14,000 ha) now dwarfs that planted in joint-venture schemes (less than 5,000 ha). In 2006, there were around 3,418 oil palm smallholders in Sarawak with an average planted area of just over 5 ha, slightly more than the average of 4 ha contributed by households participating in SALCRA or LCDA schemes. These included "independent smallholders" and various types of "supported (or subsidised) smallholders" described below, but not the "managed smallholders" in SALCRA schemes. It is noteworthy that supported smallholdings accounted for only 2,040 ha or 12 per cent of the total smallholder

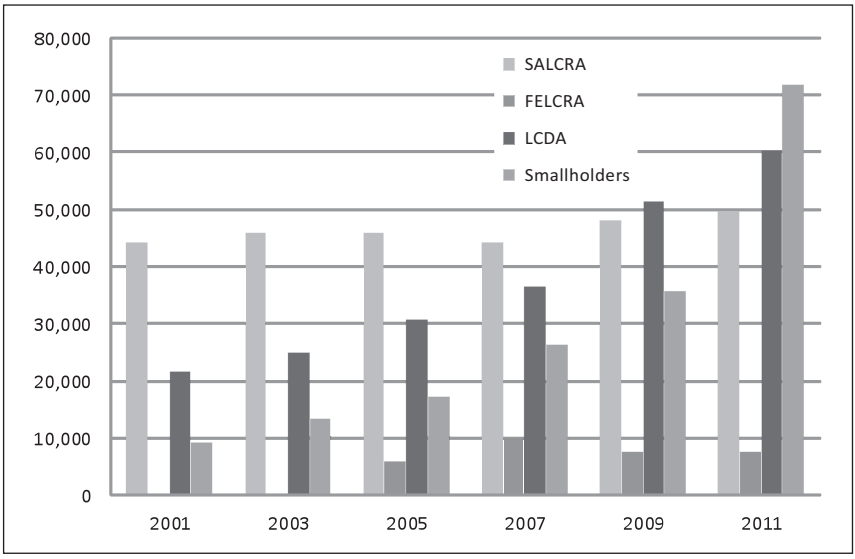

Figure 7.1. Area of oil palm (ha) in in situ government schemes (SALCRA, FELCRA, LCDA) and independent smallholdings, 2001–11 (Source: Ministry of Land Development, Sarawak).

area. Hence, the growth in smallholdings has occurred with little government assistance compared to the concerted political campaign in support of the joint-venture approach—indeed, as noted above, it has occurred in the face of active discouragement (Cramb 2011a, Ngidang 2002). Moreover, this expansion has occurred without the agrarian differentiation among smallholders that has been observed in the Indonesian context (Chapter 4).

In this chapter, we explore the characteristics of oil palm smallholders in Sarawak and the complex and varied processes by which they have inserted themselves into the rapidly expanding landscape of large-scale plantation development. In the next section, we present a history and typology of oil palm smallholders in Sarawak as a whole. This is followed by a case study of a cluster of Iban longhouse communities that have been among the pioneers of oil palm planting in Miri Division in northern Sarawak. The case study includes an historical account of the shifting circumstances that led to the success of oil palm planting in this site, and an analysis based on a questionnaire survey of 72 farm-households conducted in 2009 to obtain a picture

of their circumstances, production practices, and output. The penultimate section discusses the findings, with particular attention to the question of appropriate means of support for oil palm smallholders. A concluding section considers the implications for our understanding of oil palm complex.

OIL PALM SMALLHOLDERS IN THE SARAWAK CONTEXT

Definition and History of Oil Palm Smallholders in Sarawak

The term "smallholder" is often used without precise definition but is usually taken to imply both a small land area and reliance on family labour and management, with varying degrees of engagement with agricultural markets. This is consistent with Ellis's definition of "peasants" as "households which derive their livelihoods mainly from agriculture, utilise mainly family labour in farm production, and are characterised by partial engagement in input and output markets which are often imperfect or incomplete" (1993: 13).[6] However, it is broader than Netting's detailed characterisation of smallholders as rural households practising "intensive, permanent, diversified agriculture on relatively small farms in areas of dense population" (1993: 2). This would exclude most farmers in Sarawak, where rural population density is low (and declining) and shifting cultivation has been the dominant mode of agriculture until recently, even though intensively managed crops have been incorporated in the overall land-use system (Cramb 1993, 2011b).

Rather, it is the primary reliance on household labour (instead of hired labour or machinery) that is the distinguishing element, restricting the scale of cultivation. Thus, what constitutes a small area in the Sarawak context depends very much on the land/labour ratio of the crop in question—for pepper, a two-person family work-team can manage only about 0.5 ha; for cocoa, 1–2 ha; for rubber, 2–3 ha; for oil palm 4–6 ha; and for hill rice, 15–20 ha (including cropped and fallowed land), all assuming a diversified farming system. Some family farms allocate somewhat larger areas of their land to these cash crops, utilising local hired labour (from other smallholders) to supplement family labour, but these can still be considered family-operated smallholdings.

The intended contrast is with "estates", which occupy a larger area (arbitrarily taken to be 40 ha or more in Malaysia) and, crucially, operate with a paid (or self-employed) manager and a dedicated workforce of hired labour. This contrast can be clearly seen in the oil palm sector in Sarawak, with the estate mode of organisation extending from relatively small operations of a few hundred hectares to multi-estate operations of 5–10,000 ha or more under a hierarchy of managers, with the workforce housed in barracks on the estates.[7]

The unassisted adoption of oil palm by smallholders in those regions with access to roads and palm oil mills is an unsurprising extension of Sarawak's long history of autonomous smallholder development. The history of smallholder rubber and pepper over the past century not only demonstrates responsive and dynamic economic behaviour, but also that customary land tenure has not been an obstacle to the adoption and expansion of smallholder cash crops (Cramb 1990, 2007, 2011b). It is true that, unlike rubber or pepper, oil palm cultivation displays economies of scale in first-stage processing, and the

Figure 7.2. An "urban-based smallholder" discussing the development of his holding with his farm manager, who is also a kinsman (Photo: Rob Cramb)

harvested product is not storable. Hence, there is a need for a minimum planted area within a maximum distance from a mill to ensure an efficient level of throughput of fresh fruit bunches (FFB). This is the technical basis of the argument for large-scale, centrally managed production systems (Deininger 2011: 234).[8] However, it has long been recognised that, once processing infrastructure is in place (mills, roads, transportation), oil palm smallholders can readily take advantage of this infrastructure to pursue what is a profitable livelihood option, with lower cost and greater flexibility than large-scale operations (Barlow 1985, 1986; Zen et al. 2005; Hayami 2010).

Indeed, the comprehensively researched Miri-Bintulu Regional Planning Study (MBRPS) of the early 1970s recognised this in recommending the allocation of land in northern Sarawak for both oil palm estates and independent settlers, who would benefit from the "sites and services" provided by government agencies and the processing infrastructure established by private estates in what was, at that time, still a sparsely populated and little developed region (Hunting Technical Services/Hoff and Overgaard, 1974). The problems and ultimate failure of the pioneering Danau Smallholder Oil Palm Scheme (SHOPS), implemented from 1968 by the Department of Agriculture in neighbouring Limbang Division to the north, underscored the importance of the strategy recommended by the MBRPS, as the Danau scheme suffered from being isolated from any large-scale plantation or mill (Wee and Ngui 1980). But the main concern of the MBRPS consultants was to avoid the "sociological ills associated with plantation monoculture" in other parts of the world.[9]

This variant of the "nucleus estate and smallholders" approach was never adopted, however, for reasons to do with ethnic politics.[10] Thus, a significant opportunity for the planned resettlement of land-constrained farmers from southern Sarawak (where historically population density has been greater) was foregone. Instead, the Miri-Bintulu region has now largely been alienated from private plantation companies (Figure 7.3). These include major Sarawak-based companies such as Sarawak Oil Palm, Naim Cendera, Rimbunan Hijau, Shin Yang, and Sarawak Plantations,[11] and a host of smaller companies with connections to the political elite that were set up for the purpose of acquiring a lease of state land to log the forest and plant oil palm (Chapter 6). In addition, long-established plantation companies from Peninsular Malaysia, including Sime Darby, IOI, and Boustead, have

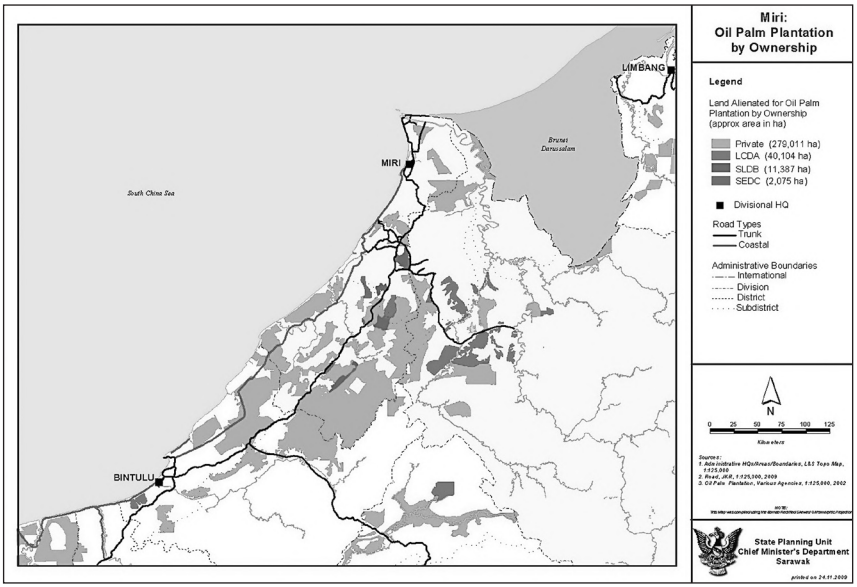

Figure 7.3. Land alienated for oil palm estates in Miri-Bintulu Region, Sarawak, by ownership category (2002 data) (Source: State Planning Unit, Sarawak). Sungai Bok study location is shown as black dot south of Miri.

taken up extensive holdings in northern Sarawak. These estates do not require the labour of local farm families as they can draw on cheaper and more easily disciplined migrant labour from impoverished districts in Indonesia (Li 2011).

Nevertheless, the recent expansion of smallholder oil palm has occurred mainly in this region, giving rise to an unplanned "nucleus estate and smallholder" landscape along the lines envisaged in the MBRPS—though with an outsized "nucleus" and a highly attenuated "plasma" (the term used to refer to the tied smallholders surrounding a nucleus estate in Indonesia). In 2013, Miri Division had 318,640 ha planted with oil palm (31 per cent of the Sarawak total), of which 87.5 per cent was in estates and 12.5 per cent in smallholdings. The 40,000 ha of oil palm smallholdings in the Division represented 42 per cent of the total area of smallholder oil palm in Sarawak; the remaining area was scattered across the other 10 divisions, with 2,500–10,000 ha in each (Department of Agriculture 2013). It is important to note that the relationships between the "nucleus" and the "plasma"

in this landscape are entirely contractual, being largely confined to the voluntary delivery of smallholder fruit to privately owned mills, established by the estates in the first instance to process their own output; there are no flows of capital or technical support from estates to smallholders, and negligible provision of estate labour by local villagers, as envisaged in the Indonesian nucleus estate and smallholder (NES/PIR) model (Chapter 4).[12]

Types of Oil Palm Smallholders in Sarawak

Smallholders in Sarawak have been divided in the past into "independent" and "village-based" smallholders to distinguish between households that are living and operating quite independently of each other on separate holdings, as has been the pattern for farmers of Chinese descent, and those living and operating within a village territory, typically centred on a longhouse, which has been the practice of most Dayak farmers (T'ien 1953; Cramb 1983, 2011b).[13] The distinction is important to the extent that decisions about allocating and managing land are subject to the customary rules and procedures of a local community, and labour-exchange groups are regularly mobilised to coordinate farm activities and speed up operations like planting and harvesting rice. However, increasingly, village-based smallholders are operating their holdings independently of village procedures such as the Iban farm meeting (*aum umai*), and with minimal resort to labour exchange (*bedurok*), so this distinction is becoming less important. Even residence patterns are changing towards households occupying discrete farmsteads most of the time, only coming back to the longhouse for meetings, celebrations, and ritual events.

The term "independent smallholders" is also used in another and more important sense in the present context to refer to farmers (whether of Chinese or Dayak descent) who are planting oil palm on their own land using their own labour and capital, without assistance from a government agency (Table 7.1; Figure 7.4). Some have obtained credit from local traders to establish their plantations, and in some cases wage labour is employed, occasionally including Indonesian workers. Some of this planting is clearly pre-emptive, that is, to prove to government agencies who may seek to allocate the land for a private or joint-venture estate that it is being productively used—appropriately termed "strategic agriculture" by Majid-Cooke (2002). However, as

demonstrated below, in most cases, smallholder expansion is self-financed, involves family labour, and is undertaken because it is seen as a profitable source of livelihood income. That is, oil palm planting is part of a diversified "livelihood strategy" (Ellis 2000; Scoones 2009) and not merely a way of defending land claims.

"Subsidised" or "supported" smallholders, on the other hand, are those who plant on individual lots, perhaps in a contiguous area, with varying degrees of support from government agencies. Table 7.1 summarises the major modes of support and some brief case studies are presented in the appendix to the chapter. Under the Eighth Malaysia

Table 7.1. Types of oil palm smallholder in Sarawak and modes of government support

Type of smallholder	*Agency*	*Case study*	*Features*
Independent smallholders	N/A	Sungai Bok	Little or no technical or financial support
Supported smallholders			
Smallholder Oil Palm Planting Program	DA	Sungai Jaong	Subsidised inputs and advice to individual smallholders; discontinued
Oil Palm Mini Estates	DA	Rapak	Area developed for group of landowners; entirely subsidised up to maturity; discontinued
Oil Palm Smallholder Support Program	MPOB	Miri Division	Subsidised inputs provided to individual smallholders; discontinued
Smallholder Buying Groups (KBT)	MPOB, FO	Subis	Inputs provided on credit; output sold to mill; repayments deducted; ongoing
Managed smallholders	SALCRA, FELCRA	N/A	Land pooled, ownership retained; managed as estate; local and foreign labour; ongoing

Notes: DA, Sarawak Department of Agriculture; MPOB, Malaysian Palm Oil Board (Sarawak branch); FO, Sarawak Farmers Organisation (a government agency); SALCRA, Sarawak Land Consolidation and Rehabilitation Authority; FELCRA, Federal Land Consolidation and Rehabilitation Authority.

Figure 7.4. Developing an oil palm smallholding from secondary forest in Kuching Division using traditional land-clearing techniques (Photo: Rob Cramb)

Plan (2001–05), the Sarawak Department of Agriculture (DA) ran two schemes for smallholders: the Smallholder Oil Palm (SHOP) Planting Program, providing subsidised inputs for up to 5 ha per participant along the lines of previous subsidy schemes for rubber, pepper, and cocoa; and Oil Palm Mini Estates (OPME), centrally managed in a contiguous block and fully subsidised up to the time of the first harvest. Only 130 ha were planted under the former scheme and 1,525 ha under the latter. It was proposed to expand these schemes under the Ninth Malaysia Plan (2006–10) to a total of 8,000 ha. However, both schemes were blocked by persons higher up in the state bureaucracy because it was seen to be in competition with potential large-scale joint-venture projects under the *Konsep Baru* policy.[14]

In 2005, the Malaysian Palm Oil Board (MPOB), a federal government agency within the Ministry of Plantation Industries and Commodities, also introduced a scheme to support smallholders in the vicinity of existing mills, mainly in northern Sarawak (Table 7.1).

This involved the provision of good quality planting material, fertiliser, and technical advice, very similar to the DA's SHOP Program, though with more specialised extension. Where the land was native customary land, verification of ownership had to be provided by the community headman. The Board was overwhelmed with applications. By February 2006, it had received 8,970 applications, of which 94 per cent were for native customary land. The average area per application was just over 4 ha, giving a total area of about 36,000 ha—more than the total area of smallholder oil palm at that time. However, only 161 applications had been approved, covering 390 ha, all titled land. The issue of verifying native customary land claims proved too difficult and controversial for the Board. In addition, many of the applications came from within areas that had been "earmarked" by LCDA for joint-venture projects. Hence, there was again pressure not to undermine the consolidation of native customary land for large-scale development.[15]

A more successful initiative of the MPOB has been the establishment of smallholder buying groups (*Kelompok Baja Terkumpul*, KBT) to improve access to fertiliser and credit (Table 7.1). The concept is that a commercial agent supplies fertiliser on credit to the participating farmers, who agree to deliver their fruit to a specified mill, which in turn agrees to deduct the cost of the fertiliser and repay the supplier. MPOB's role is to oversee the arrangement and to supply good quality planting material and technical advice to the farmer group. As the case study of the Subis KBT shows, the uptake of this scheme has been rapid with impressive results in terms of increased yields and incomes (*see* appendix).

For completeness, we include a final category, "managed smallholders", referring to participants in SALCRA schemes (as well as a much smaller number managed by the Federal Land Consolidation and Rehabilitation Authority, FELCRA) (Table 7.1). SALCRA operates by declaring a tract of land (typically from 1,000 to 5,000 ha) to be a "development area", thereby giving it powers to develop the land on an estate basis, though the owners must be in agreement and eventually are issued with full titles to their individual lots. SALCRA borrows public and donor funds for the capital costs of development on concessional terms. The costs are charged to the participants, who progressively pay back the debt as their palms are harvested, leaving them with the net proceeds from the sale of their fruit, which

SALCRA disburses, usually twice-yearly. In the 1970s and 1980s, the term "managed smallholders" was certainly appropriate as plantation labour was entirely provided by the landholders themselves, who were employed on a daily wage but usually also worked on their own lots.[16] (As observed in Chapter 6, these smallholders were in many respects like Indonesian "plasma" smallholders but without a nucleus estate.)

Since the 1990s, however, participants have become effectively wage labourers and/or merely contributing landholders in a centrally managed estate. In fact, most of the labour for SALCRA and FELCRA schemes is now provided by Indonesian contract workers (Figure 7.5). Indonesians are paid MYR 12–15 per day, or MYR 20–25 per ton for harvesting, yet, they are widely acknowledged as able to perform the same task much more efficiently than locals, as well as being willing to work longer hours on a six-day week basis while living in simple barracks on the estate. Most participants in SALCRA schemes choose to work in other farm or non-farm pursuits while collecting their share of the net proceeds from the estate.[17] Thus, SALCRA schemes are increasingly seen by landholders as a way of capitalising surplus land to generate a supplementary cash flow rather than a "managed smallholder" operation as such.

A CASE STUDY OF INDEPENDENT SMALLHOLDERS IN MIRI DISTRICT

Few studies have been undertaken of oil palm smallholders in Sarawak. Wee and Ngui (1980) undertook a comprehensive analysis of the problems bedevilling the Danau Smallholder Oil Palm Scheme in Limbang Division in the 1970s, recommending its closure. The Department of Agriculture (1985, 1997) compiled extant information on the agronomy and economics of smallholder oil palm on both mineral and peat soils, at a time when there were relatively few smallholders planting the crop. Majid-Cooke (2002) described how many farmers in Miri Division, faced with the prospect of having their land incorporated in private estates or joint-venture schemes, planted oil palm as a form of "strategic agriculture" to reinforce their claims to the land. Majid-Cooke et al. (2006) conducted a survey of 284 independent smallholders (defined as having planted up to 20 hectares of oil palm) in four sites in Miri Division—including Iban longhouses

along the Niah, Bakong, and Tinjar Rivers and the large Kayan longhouse of Long Laput on the Baram River (Figure 7.3). The data provide a useful profile of smallholder practices and motivations in the early 2000s.

Figure 7.5. Indonesian workers outside the office of a FELCRA "managed smallholder" scheme in Lundu (Photo: Sunny Sanderson)

The study reported here was conducted in 2009. It focuses on a cluster of five Iban longhouses in the Sungai Bok region of Beluru sub-district in Miri district (*see* for study location Figure 7.3).[18] The Iban constitute the largest ethnic group in Sarawak and are numerically dominant in the oil palm zone of Miri district. The study involved interviews with key informants to reconstruct the history and context of oil palm planting in this location and a questionnaire survey of 72 households, including both oil palm planters and non-planters and regardless of the size of area planted. The findings indicate a significant shift from "strategic agriculture" to a major commitment to oil palm as a source of livelihood. Nevertheless, there is significant scope for well-targeted forms of external support.

Historical Context

The Sungai Bok longhouse communities originated in the 1930s when a group of Iban families was sponsored by the Brooke government to migrate from the long-settled Lemanak River in the southwest of Sarawak to the sparsely populated Tinjar River in the northeast, to alleviate population pressure and poverty in the former region.[19] The migrants were allocated land to the west of the Tinjar River along the north bank of its tributary, Sungai Bok, totalling about eight square kilometres (Figure 7.6). The new community settled first at Kuala Bok at the mouth of the river and proceeded to clear the nearby forest for hill rice farming. In subsequent decades, the community moved and split several times, but by 1970 was largely consolidated back at Kuala Bok in a substantial longhouse (Rumah Pagon) accommodating 25 households (*bilek*), with a smaller group (Rumah Radin) living along a tributary. By this time, much of the forest in the allocated territory that was accessible by river had been brought into the shifting cultivation cycle and thus converted to secondary forest (*temuda*), and was subject to customary ownership by individual households. In addition, rubber smallholdings had been established along Sungai Bok and its tributaries, some with the assistance of the British Colonial Government's Rubber Planting Scheme (RPS), implemented by the Department of Agriculture.

Then in 1976, the Tinjar road, linking the major north-south Miri-Bintulu road through Beluru to Long Lapok on the Tinjar (and ultimately to Long Lama on the Baram), cut through this hinterland (Figure 7.6). From this time onward, individual households started moving upstream to the roadside because of the vastly improved access it provided to towns and markets, especially the divisional capital, Miri. Some of this land had already been cultivated before the road was built, and some rubber planted with the assistance of the RPS happened to be near the road. However, much of the land had been selectively logged in the 1960s by a Japanese company; people proceeded to clear this land for rice farms, including both hill and swamp rice. Permanent farmhouses were built and pepper gardens established in response to the boom in pepper prices at that time.

In 1985, the whole community of Rumah Radin moved to the road but, by mutual agreement, split into two longhouses. Two years later Rumah Pagon moved from Kuala Bok to the road, also dividing

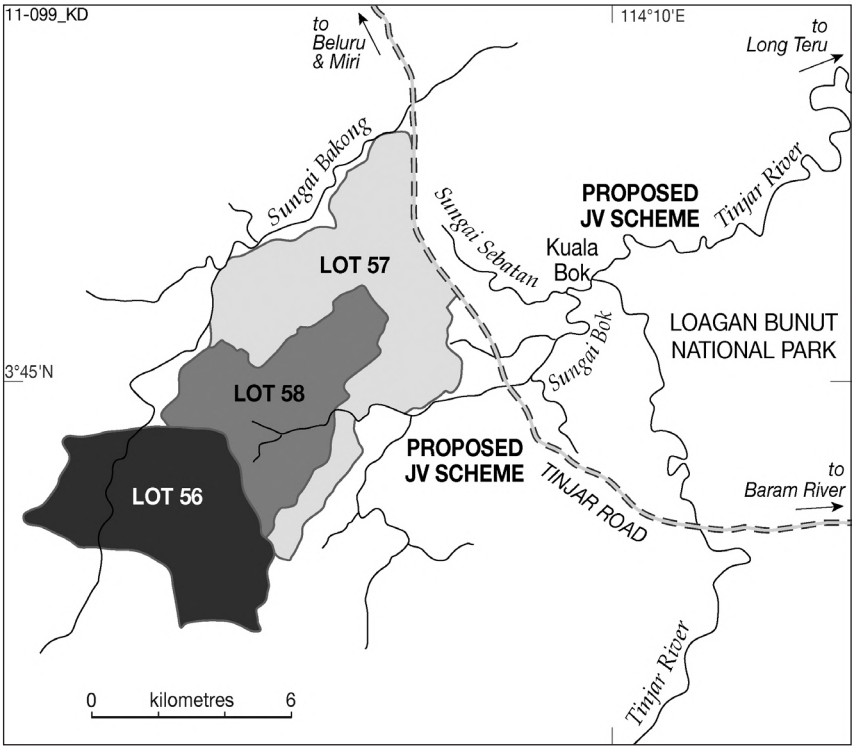

Figure 7.6. The Sungai Bok lands showing areas allocated for private estate, smallholders, and joint-venture scheme.

into two longhouses. Altogether there were about 70 households—too many to build one longhouse. The limited land and the desire to be close to farming land led to the decision to build several smaller longhouses distributed along the road. In 1995, one of these longhouses burned down and was replaced by two shorter longhouses. Thus, the original migrants to Kuala Bok had, through complex processes of demographic and socio-economic change, given rise to five longhouse communities distributed along the Tinjar road in the upper reaches of Sungai Bok. However, these five groups still shared access rights to their original territory (*menoa*), which remained undivided (*tanah saum*).

The customary ownership of the Sungai Bok lands was called into question in 1988 when the communities received notice from the Department of Land and Survey that the Sibu-based global timber

and plantation giant, Rimbunan Hijau (RH), had been given a provisional lease of an area of about 5,000 ha along the western side of the Tinjar road to plant oil palm (Figure 7.6). The area included land that had been cultivated for hill rice and was now secondary forest, as well as some rubber and pepper gardens. Moreover, the whole area lay within the original territory allocated to the settlers at Kuala Bok in the 1930s, including forested land that had never been farmed. The area of the original RH lease accounted for more than half the territory allocated to the Sungai Bok community in the 1930s. Nevertheless, the department's position was that, as the land in question had not been cultivated before 1958 (the cut-off date stipulated in the Sarawak Land Code for acquisition of "native customary rights" by clearing and cultivation), it was legally state land, available for alienation to other parties.

The Bok communities objected to the notice, claiming that they held customary rights to land inside the lease area. At a longhouse meeting (*aum*), it was eventually decided to pursue a compromise with the government and the company. Rather than claim all their original territory, they would make a smaller claim that would encompass most of the land needed by households to maintain their livelihoods. Following this, a meeting was held in Beluru, the sub-district headquarters, with the sub-district head, the government-appointed Iban regional headman (*penghulu*), the headmen (*tuai rumah*) of the Sungai Bok longhouses, and a representative of RH. The proposal to excise the area required by the Bok communities from the RH lease was accepted, subject to two conditions—first, the communities should plant oil palm on the land acquired and sell their fruit to the RH mill; second, they should support the company to apply for additional state land to replace the land surrendered. This was agreed on. Figure 7.6 shows the original lease to RH (Lots 57 and 58), the area excised from the lease for the benefit of the Sungai Bok communities (Lot 58), and the hinterland area added to the RH lease (Lot 56). Note that, notwithstanding this agreement, Lot 58, where the communities were to plant oil palm, officially remains state land (Cramb and Sujang 2011).

In 1989–90, the Department of Agriculture provided oil palm seedlings to the landholders. All those with land along the road planted oil palm, though in a half-hearted way, mainly to reinforce

their now-tenuous claim to the land. Prices were also relatively low at the time. Hence, there was no maintenance of the crop. Palms took three to five years to bear fruit, which is slow by commercial standards. Then in the mid-1990s, the Sarawak Oil Palm (SOP) mill was approached to see if they would buy the fruit (the RH mill was not yet operational). One longhouse member bought a truck and offered MYR 50 per ton to transport the FFB to the mill. He was paid immediately by the mill and in turn immediately paid the owners. The incentive of cash in the hand encouraged them to clear and maintain their oil palm plots, resulting in increased yields and profits.

Since then, there has been renewed interest in planting. The soils are quite productive, receiving annual depositions of fertile silt during flash flooding. Better planting material has also been obtained from the Department of Agriculture's nursery at Kabuloh. Higher prices in the late 1990s led to further increase in profits. The cost of planting was reduced by cultivating hill rice and other crops between the oil palm for the first two years, which also minimised weeding requirements. Tuai Rumah Gansa, son of Pagon, one of the Kuala Bok pioneers, had 12 ha in production. He employed longhouse people in rotation and Indonesian plantation workers on Sundays. There were now several truck owners willing to transport FFB to the RH mill at MYR 50 per ton. The fruit was classed as Grade C but the producers were paid directly with money deposited into their bank accounts in Miri.

Other longhouses along the Tinjar road (especially in the upper Bakong) began planting in the 1990s as well (Figure 7.6). Holdings were mostly around 2 ha. In addition, some longhouses entered into new contractual arrangements with Miri-based investors. In one case the community established a joint venture with a well-connected developer, with 80 per cent of profits to the investor and 20 per cent to the landholders. In another case, where the land had already been surveyed, land was leased to a local Malaysian Chinese investor at MYR 0.20 per palm per month (about MYR 350 per hectare per year). As argued below, these "investor-friendly" arrangements reflected a situation in which land was relatively abundant, but the labour and capital to develop it was relatively scarce.

The focus on oil palm in the Bok communities and elsewhere meant that other farming activities had fallen by the wayside. Few

people cultivated pepper—once the mainstay of the longhouse economy—given the high labour requirement, the escalating cost of fertiliser, and the fall in prices. Rubber prices had improved since 2002, but the established rubber gardens were mostly too far from the road, having been planted along the rivers when the longhouses did not have road access. Hence, rubber tapping had largely ceased (though some plantations were still tapped and were making good returns). Rice was still cultivated on a small scale on nearby swampy land, using fertiliser and herbicide to improve the yield and the return to labour—the fallow vegetation was sprayed and left to decay, the rice seed was dibbled directly into the soil, and little further was done until harvest. These trends have been reinforced by the out-migration of young people, many of whom have moved to Miri to work, buying low-cost housing with the help of their parents and the profits from oil palm. Consequently the labour available for farming activities is increasingly limited.

As a final twist to this story, the Sungai Bok longhouses have joined with neighbouring longhouses to develop a proposal for a joint-venture scheme on their unutilised native customary land under the *Konsep Baru* policy (Cramb and Sujang 2011). Considering their success with smallholder oil palm, and their inability to make productive use of their pre-1958 shifting cultivation lands away from the road, they were motivated to turn these lands into a productive asset that generated dividends (Figure 7.6). However, a dispute over the Department of Land and Survey's mapping of their native customary land and uncertainty about the merits of entering into a joint-venture arrangement, given the problems facing these schemes elsewhere in Sarawak, has led to delay in finalising the necessary agreements.

Household Survey

A questionnaire survey was undertaken in November 2009 of 72 households in the five Sungai Bok longhouses, representing 76 per cent of the total. The interviews were conducted in the Iban language by young people from the community with secondary school education. Interviews took about half an hour each. The data were entered and analysed in an Excel spreadsheet. For the analysis, respondents were divided into three groups—those with no oil palm (n = 13), less

than 10 ha of oil palm (n = 49), and ten or more hectares of oil palm (n = 9). The 10 ha cut-off was determined on the basis of the skewed distribution of planted area, as discussed below.

The average household size was 7.2 but the average number of residents was only 4.7, reflecting the pervasive outmigration of younger household members to work in Miri and elsewhere. Nevertheless, the surveyed households averaged 2.0 farm workers, and ranged from 0 to 4 (Table 7.2), so there was an adequate source of labour for oil palm, though the farm workforce was ageing. There was no significant difference between the three groups in the number of farm workers.

Table 7.2. Number of household members available for farm work

No. of farm workers	*No. of households*	*% of households*
0	2	2.8
1	16	8.3
2	41	56.9
3	9	12.5
4	4	5.6
Total	72	100.0

Fifty nine households (82 per cent) had planted oil palm. These households gave as their reasons that the soil was good for oil palm (the soils are a mixture of mineral soils and shallow peat) and that the mill was close by, and hence, they could make a good return. Those with no oil palm generally gave as their reasons that they had no money to buy seedlings and their land was too far from the road.

The average holding size was 5.4 ha, with 4.1 ha mature and 1.3 ha immature. This was identical to the mean area found by Majid-Cooke et al. (2006) and to the Sarawak-wide average for smallholders in 2006; it was above the average area of 4 ha contributed to SALCRA and LCDA schemes. However, the distribution was highly skewed, with a mode of 2–4 ha (31 per cent of all households and 37 per cent of those with oil palm), while 8 per cent of all households had 10–20 ha and 4 per cent had 20–40 ha (Table 7.3). Those with less than 10 ha averaged 3.1 ha and those with 10 ha or more averaged 18.4 ha. This bifurcation into two size groups was also found by Majid-Cooke

et al. (2006), and is evident in the data collected for KBT Subis, discussed in the appendix. However, as will be discussed below, the relative abundance of land meant that the growth of the larger holdings was neither at the expense of households with smaller holdings, nor of those without any oil palm (and was probably constrained in any case by the limited availability of those willing to work for wages).

Planting had occurred in two overlapping waves. About half the 59 households with oil palm had been planting ten or more years (mainly in the mid-1990s but some as far back as the 1980s) and the other half had started planting in the past decade, especially in the previous one to five years (Table 7.4). The smaller size group averaged 11 years of oil palm planting and the larger size group averaged 19 years, suggesting that the latter had slowly built on the advantage they gained from their earlier start by expanding the area planted. In all cases, the oil palm was established on the household's existing farm land and did not involve clearing primary forest or acquiring land from others. In over 80 per cent of cases, the land was under secondary scrub or forest (*temuda*) within the shifting cultivation cycle (Table 7.5). In other cases, the oil palm had directly replaced rubber, pepper, cocoa, or fruit trees.

Table 7.3. Area of oil palm per household

Holding size (ha)	*No. of households*	*% of households*
0	13	18.1
0.1–1.9	15	20.8
2.0–3.9	22	30.6
4.0–5.9	8	11.1
6.0–7.9	4	5.6
8.0–9.9	0	0.0
10.0–14.9	5	6.9
15.0–19.9	1	1.4
20.0–29.9	1	1.4
30.0–39.9	2	2.8
n.a.	1	1.4
Total	72	100.0

n.a. = data not available

Table 7.4. Years since first planting of oil palm

Years since first planting	*No. of households*	*% of households*
0	13	18.1
1–5	15	20.8
5–9	8	11.1
10–14	5	6.9
15–19	21	29.2
20–24	6	8.3
n.a.	4	5.6
Total	72	100.0

n.a. = data not available

Table 7.5. Previous land use of oil palm plot

Previous land use	*No. of households*	*% of oil palm households*
Shifting cultivation	49	83.1
Rubber	7	11.9
Pepper	1	1.7
Cocoa	1	1.7
Orchard	1	1.7
Total	59	100.0

Twenty two of the respondents (30 per cent) indicated they had received some assistance with planting in the 1990s, mainly from the Department of Agriculture, though four were directly assisted by their local Member of Parliament. Most, however, had received no government assistance. This applied equally to the two size groups. Moreover, no one had taken on private credit or loans, whether short-term or long-term, in cash or kind. Even for those who received early government assistance, most of the planting has been a result of their own investment of labour and capital. Hence, they can be regarded as "independent smallholders" in the sense discussed above.

Respondents reported buying seeds at MYR 1.80 each, or six-month-old seedlings at MYR 3–6 each, from government agencies (the Department of Agriculture or the Malaysian Palm Oil Board) or private companies such as Sarawak Oil Palm. The type or quality of

the planting material was not ascertained. The planting density was 120–30 palms per ha on undulating land and 135–40 palms per ha on steeper land. One farmer decided to plant 180 palms per ha "because [he] had limited land". Most respondents undertook replacement planting where seedlings had died. Only three respondents terraced their farms (which were mostly undulating rather than steeply sloping), but it was common to build farm paths to facilitate removal of the harvested fruit bunches, though the surface was not gravelled as in estates. No one had dug drains.

Most farmers (75 per cent) applied fertiliser to their immature and mature palms and used herbicide to keep weeds under control. The fertiliser (urea and compound NPK fertiliser) and herbicide (glyphosate and paraquat) were bought in Miri and paid for with cash. On average, farmers applied over 200 kg per ha of fertiliser by gross weight to their mature palms; some applied up to 800 kg per ha. Commercial practice is to apply about 1,000 kg per ha of compound fertiliser to mature palms, indicating that the smallholders faced an overall capital constraint on fertiliser use. The rate of application was significantly higher for the smaller size group than the larger size group, suggesting that the larger farmers, despite their greater income, still struggled to meet the full capital requirements of their operation.[20]

Most labour was provided by the household members working on their own plot, though maintenance operations such as weed control were often undertaken by women using labour exchange (*bedurok*) in small groups, typically every two months or so. Seventeen households (29 per cent) hired labour to carry out some of their operations, mainly road maintenance (25 per cent) and carrying fruit bunches (25 per cent), but also including spraying (9 per cent), slashing weeds (19 per cent), fertilising (5 per cent), and harvesting (15 per cent). As would be expected, the incidence of hiring labour was lower for the smaller size group (22 per cent) than for the larger size group (67 per cent), which particularly relied on hired labour for harvesting. In all cases, this was local labour; no respondent reported hiring Indonesian workers. It is noteworthy that hired labour was provided by households who also had their own oil palm plots, and not by those households without any oil palm. This confirms that the latter group were labour-constrained, partly accounting for their unwillingness or inability to plant. Wage rates were MYR 30–35 per day, considerably higher

than on private or government-managed plantations where Indonesian workers were paid MYR 12–15 per day.

The average yield of FFB obtained from mature plots was 11.5 tons per ha (compared with the Sarawak average of 15.3 t/ha in 2009, mainly reflecting estate yields). About two thirds of those with mature plots obtained yields of 5 to 14 tons per ha (Table 7.6). However, six farmers reported over 20 tons per ha and two of these achieved over 30 tons per ha. The yield for the smaller size group averaged 12.0 tons per ha, compared with 9.2 tons per ha for the larger size group, presumably reflecting the different intensity of fertiliser application. The frequency of harvesting—a function of labour availability—would also have affected yield; there was a tendency to harvest only every three to four weeks to save on labour. Most oil palm holdings were located 100 metres or less from the truck pickup point, but some were as far as 3 kilometres. Some form of transportation such as a motorcycle was used in these cases to haul the fruit bunches to the roadside.

Table 7.6. Yield of mature oil palm plots

Yield (t FFB/ha/y)	*No. of households*	*% of households*
1–4	6	13.3
5–9	18	40.0
10–14	11	24.4
15–19	4	8.9
20–24	4	8.9
25–29	0	0.0
30–39	2	4.4
Total	45	100.0

Most farmers with mature holdings (62 per cent) sold directly to the nearest mill, owned by Rimbunan Hijau. Some of these paid MYR 45–50 per ton to a local Iban contractor (usually also a smallholder) to transport the fruit bunches to the mill. Over a third (36 per cent) sold directly to one of five local Iban buyers. One sold to a Chinese company. Four of the five respondents with their own truck were in the larger size group.

In all cases, farmers were paid the same day in cash for their FFB delivered to the mill. The price received for the most recent delivery (November 2009) averaged MYR 336 per ton, and ranged from MYR 250–370 per ton. The variation in price was independent of the size class or the mode of selling (e.g. those selling to RH reported the full range). Thus prices appeared to be competitively determined, based on quality, though all farmers complained that prices were too low given the high cost of inputs.

The average gross revenue obtained in 2009 was about MYR 14,000, or about MYR 3,500 per mature ha. This is somewhat lower than the mean of MYR 16,500 reported by Majid-Cooke et al. (2006). The distribution was skewed, reflecting the skewed distribution of landholding (Table 7.7). Nearly a third of all respondents earned less than MYR 10,000 per year. However, a minority (14 per cent) with large, productive holdings earned from MYR 20,000 to over MYR 60,000. Thus the mean revenue for the smaller size group was MYR 9,130 and for the larger size group, MYR 41,100.

Table 7.7. Estimated gross annual revenue from sale of fruit (2009)

Revenue (MYR/y)	*No. of households*	*% of households*
Nil	25	34.7
<10,000	23	31.9
10,000–19,000	11	15.3
20,000–29,000	4	5.6
30,000–39,000	2	2.8
40,000–49,000	2	2.8
50,000–59,000	0	0.0
60,000 +	1	1.4
n.a.	4	5.6
Total	72	100.0

n.a. = data not available

The "modal farmer", with a mature holding of about 3 ha and a yield of about 12 tons per ha (typical of the <10 ha size group), would have had annual paid-out costs of about MYR 1,000 for fertiliser (at 230 kg per ha) and a similar amount for herbicides, plus about

MYR 1,800 for transportation to the mill (at MYR 50 per ton). If all labour was supplied by the family (typically the case for this size class), this would mean a net cash income from oil palm of about MYR 6,640. This translates to MYR 2,210 per ha and MYR 44 per day, assuming 50 days per ha (Table 7.8). This is well above the rural wage rate and higher than the return to other farm activities at that time. Farmers with higher inputs and yields would have earned correspondingly more. For example, a farmer in the same size group who applied 800 kg per ha of fertiliser and obtained a yield of 20 tons per ha would have earned MYR 3,345 per ha and MYR 60 per day. All farmers would have experienced increased returns as FFB prices increased in 2010–11. At MYR 400 per ton the modal farmer would earn MYR 70 per day, and at MYR 600 per ton, he/she would earn MYR 120 per day, even with low yields and poor-grade fruit.

Oil palm planting was typically the major source of livelihood for those households with mature palms. Apart from being producers, some households had one or more members who worked on other oil palm smallholdings (11 per cent), on an oil palm plantation (6 per cent), as a contractor transporting fruit bunches (3 per cent), or in a palm oil mill (6 per cent). (Interestingly, all of these households had their own oil palm; it was not the case that households without oil palm were supplying labour to either the small- or large-scale oil palm sectors.) Other farming activities have been largely overshadowed by

Table 7.8. Estimated costs and returns for a typical smallholder in the survey

Item	*Assumptions*	*Value*
Output	12 t/ha from 3 ha	36 t
Revenue	36 t @ MYR 290/t	MYR 10,440
Expenditure on fertiliser	230 kg/ha @ MYR 70/50kg	MYR 1,000
Expenditure on herbicide		MYR 1,000
Transportation	36 t @ MYR 50/t	MYR 1,800
Total paid-out costs		MYR 3,800
Net revenue		MYR 6,640
Family labour input	50 days/ha for 3 ha	150 days
Net revenue/ha		MYR 2,210
Net revenue/day		MYR 44

oil palm. As Table 7.9 shows, most households (89 per cent) produced some swamp rice (or dry rice on flat lowland areas) for their subsistence; very few (13 per cent) still planted hill rice. Hence, there was an abundance of secondary forest in the more remote parts of the longhouse territory. Production of rubber and pepper, the traditional cash crops, had clearly fallen by the way (though many have since started tapping their existing rubber trees and are making good returns, given prices of MYR 8–9 per kg for unsmoked sheets). Even backyard activities such as pigs, poultry, and horticulture were only undertaken by a third of households interviewed.

Table 7.9. Livelihood activities other than oil palm planting

Activity	*No. of households*	*% of households*
Hill rice	9	12.5
Swamp rice[a]	64	88.9
Pepper	1	1.4
Rubber[b]	3	4.2
Other agriculture	23	31.9
Wage work	25	34.7
Salaried work	19	26.4
Business	3	4.2
Remittances	17	23.6

[a] "Swamp rice" (*padi paya*) is grown in naturally swampy conditions without bunds using direct seeding. Some farmers also planted "dryland rice" (*padi emperan*) on flat dry land adjacent to the swampy land.

[b] Subsequent observations indicate that more households are now tapping rubber, given recent high prices.

A large proportion of households derived income from non-farm work (wages, salaries, or remittances). There were no significant differences between the two oil palm groups in terms of other livelihood activities, but the non-planters, while almost all cultivating swamp rice, derived a significantly lower proportion of income from daily or monthly wages or remittances, consistent with their explanation that they had no capital to buy oil palm seedlings. Hence, they were cash-poor households in any case, and this was one factor inhibiting the generation of higher cash incomes through cultivating oil palm. For most households, however, the livelihood system was constructed

around oil palm as the only cash crop, swamp rice as a low-input subsistence buffer, and non-farm sources of income derived from urban-based employment.

DISCUSSION

The oil palm planters in the Sungai Bok survey were essentially independent smallholders who had taken on the activity with little or no assistance from government agencies or private traders and financiers. Though there was a small number of landholders with 10–30 ha of oil palm who had started earlier and now made use of hired labour, by far the majority had planted under 8 ha, typically 2–4 ha, and operated with labour provided by husband and wife (who also engaged in other farm and non-farm pursuits). Less than one in five households had not planted oil palm, most of whom lacked non-farm sources of cash flow to provide sufficient start-up capital and/or did not have suitable land. Thus, although there were different strata in terms of the size of area planted with oil palm, this did not reflect a process of agrarian differentiation in the sense of "a cumulative and permanent…process of change…based on…increasing inequalities in access to land" (White 1989: 20). Land remained relatively abundant[21] and the strata were more the product of initial differences in wealth and status within the longhouse and differences in "human capital" affecting access to off-farm sources of cash flow rather than a necessary consequence of the oil palm boom.[22] The limited evidence from other surveys, combined with anecdotal evidence and casual observation from elsewhere in Sarawak, suggests that the survey respondents are fairly typical of Dayak oil palm smallholders in the state.

Many of the Sungai Bok smallholders began planting desultorily and experimentally, mainly to confirm their claim to the land, but for most, this was now their major on-farm source of income—"strategic agriculture" had become a genuine "livelihood strategy". Their oil palm smallholdings provided them with steady employment and cash income throughout the year, without them being subject to either the dictates of plantation managers or onerous financial obligations to suppliers of inputs and credit. This strategy was buttressed, on farm, by low-input swamp rice cultivation for subsistence and, off farm, by urban wage and salary employment, and in a few cases self-employment in rural transportation and marketing.

Smallholder oil palm has proved to be a livelihood strategy that generates relatively high returns to household labour and capital, even though yields per unit of land are low. However, this is consistent with the circumstances of most farm households in Sarawak, where farming land is still relatively abundant and underutilised, but family labour is increasingly scarce and costly, given the opportunities available for urban-based employment and residence. Capital has also been scarce and costly, with limited availability of private credit for smallholder farm development and restricted access to the subsidised capital resources channelled through government schemes for smallholders. This constraint is being progressively lifted as increased income from oil palm provides the working capital to purchase farm inputs and expand the planted area without resorting to credit, but the level of fertiliser use is still low, suggesting that capital remains a limiting factor.

Even with low inputs of labour and capital, and hence yields of around 12 tons of FFB per ha, smallholders with about 3 ha of mature palms were able to earn around MYR 7,000 per year,[23] providing a return to family labour of over MYR 40 per day when prices were low, rising to over MYR 100 per day at more recent (May 2011) prices.[24] Nevertheless, smallholder returns to labour and capital could be improved, particularly by greater use of fertiliser to increase yields. Provided the ratio of FFB price to fertiliser price is favourable, the response of yield to increased fertiliser application (up to say 1 ton per ha of an appropriate compound fertiliser properly applied) would translate directly into increased net income per day. A further area of improvement would be the upgrading of farm access roads to lower the cost of harvesting and hauling fruit, and to assist those whose land is currently not sufficiently accessible for them to consider planting.

This suggests a need for greater use of well-targeted support measures enabling the acquisition of good quality planting material, the use of higher levels of recommended fertilisers, and improvement in infrastructure. Rather than the fully subsidised approach of the DA's Oil Palm Mini-Estates, which are popular with participants but unlikely to be a very cost-effective use of public funds, it would seem better to expand and refine the farmer group (KBT) approach pioneered and fostered by the MPOB. This not only alleviates the constraint on capital, ensuring greater use of fertiliser, but provides access to good quality planting material and technical advice, and facilitates

savings in the transportation and assembly of fruit for processing, while leaving the overall development and management of the farm in the hands of the smallholders. An additional public investment in farm access roads could assist both planters and those who are currently non-planters to obtain greater benefits from oil palm.

CONCLUSION

The Sarawak state has used its coercive territorial powers to favour the commercial plantation sector in opening up land for oil palm development. This is a particular instance of the global land grab phenomenon in which domestic rather than transnational players dominate—a powerful alliance has been developed between the political elite in Sarawak and its clients in the agribusiness and forestry sectors, pushing the legal defences of customary landholders to the limit. Notwithstanding setbacks inflicted by the judgements of the High Court, which has drawn on common law arguments to uphold customary land claims, this political-business alliance has succeeded in converting vast tracts of public and community land into private landholdings, generating valuable rents for a privileged few from both timber extraction and large-scale tree-crop agriculture.

Nevertheless, oil palm smallholders have found ways to insert themselves into the interstices of the extensive plantation landscape, particularly in northern Sarawak, creating a more diverse social, economic, and environmental outcome than the Taib government's intended "rows of plantations and villages well organised in centrally managed estates". These smallholders mostly obtain lower yields than the estates, but achieve good returns with their limited resources of labour and capital, while maintaining a degree of livelihood diversity. Importantly, the rapid growth of oil palm smallholders has not been associated with marked differentiation between rural households.

The context here is all important—extensive landholdings derived from the traditional practice of shifting cultivation, continuing low population density, and the rapid growth of non-farm employment in the Malaysian economy have all combined to produce relatively land-abundant village agriculture, notwithstanding the ongoing internal land grab, as well as diversified livelihood portfolios in which non-farm sources of income and capital feature prominently. Hence,

establishing 3 ha or so of oil palm is within the reach of most households—provided they have a couple of farm workers and some start-up capital and their land is not too inaccessible—without incurring onerous obligations to large landholders or creditors. Nevertheless, targeted support for these smallholders in the form of group-brokered credit for key inputs, technical advice, and coordinated provision of infrastructure, especially farm access roads and fruit collection centres, could help to raise their incomes even further and spread the benefits of the oil palm boom more widely and equitably.

APPENDIX: CASE STUDIES OF SUPPORTED SMALLHOLDER SCHEMES

Two cases in Sri Aman district in southern Sarawak illustrate the operation of the Department of Agriculture's previous schemes for oil palm smallholders.[25] Sungai Jaong is an Iban longhouse community that received support under the SHOP planting program in the early 2000s. In this case, there was little or no coordination and smallholders were left to plant on their own, having been provided with subsidised planting material and fertiliser and technical advice from the DA's generalist extension staff. There was no investment in terracing or farm roads. When the price of FFB dropped and the price of fertiliser rose sharply in the mid-2000s, most participants gave up. The project was described by the Divisional Agricultural Officer as "a total failure".

The second case is Rapak, which took part in the OPME scheme.[26] Several neighbouring longhouses contributed a block of about 100 ha, with individual lots of 1–3 ha. All development work was undertaken by Peladang Berdikari, a semi-private subsidiary of the Sarawak Farmers' Organisation (the commercial arm of the DA). There were problems with the supply of seedlings (a state-wide problem at the time due to demand outstripping supply) leading to delayed planting, but eventually the project was handed over to the farmers in 2003–04 when the palms were coming into production. The farmers preferred to manage the mature plantation themselves rather than contract Peladang Berdikari to do so. The Pantu Area Farmers' Organisation continued to provide some services, selling fertiliser and purchasing FFB for transportation to the nearby SALCRA mill, though some

farmers with their own trucks preferred to sell directly to the mill. The Rapak smallholders survived the cost-price squeeze of the middle part of the decade and continued to make good returns, with no debts to repay as well as having land and labour available for other pursuits. Hence, the farmers regarded this scheme as a success, and preferable to a large joint-venture scheme, though there were concerns about ongoing maintenance and harvesting as the palms became taller and the farmers grew older.

Peladang Berdikari did enter into a management arrangement for a 209-ha mini-estate at Kerapa in Sarikei Division in central Sarawak, which involved paying the landholders rental in Years 4, 5, and 6, and a share of the profits from Year 7, including a fixed component and a variable component linked to the price. Peladang Berdikari was expecting to start making a profit from this arrangement in 2008, the seventh year.[27]

One of the earliest and most successful of the MPOB's smallholder buying groups has been KBT Subis in Miri district (Figure 7.3). KBT Subis was formed in 2004 as a contractual arrangement between four parties: (1) Sarawak Oil Palm (SOP) Berhad as the operator of the mill; (2) the Area Farmers' Organisation (Pertubuhan Peladang Kawasan, PPK) for Subis; (3) oil palm smallholders in the Subis area who were (or became) members of PPK Subis; (4) MPOB as the monitoring and enforcing agency. The conditions for receiving credit through the PPK[28] are that the farmer has to be a member, the credit is given in kind (largely in the form of fertiliser) up to a maximum value of MYR 3,000 for a maximum period of 12 months, and the interest rate charged is 3 per cent for 1–3 months, 5 per cent for 4–6 months, and 10 per cent for 7–12 months. PPK Subis also provides a collecting service to smallholders, which delivers their harvest in small lorries to the Subis Collection Centre from where it is hauled by SOP trucks to the mill.[29]

The Subis smallholders have been planting oil palm for many years, being surrounded by the long-established SOP plantations and with good access to the SOP mill. They planted oil palm on their farming land, previously used for upland rice (and forest fallow), rubber, or pepper. Some of the farmers with larger areas (20–25 ha) now employ permanent local workers as well as Indonesian plantation workers on Sundays (their day off). In the first year of the KBT

scheme, the number of participants was 1,425, increasing to 5,697 in 2008. The total tonnage increased accordingly from just over 12,000 tons in 2006 to more than 44,000 tons in 2008. Likewise, the annual value of credit extended rose from MYR 121,000 in 2006 to MYR 394,000 in 2008. The loan recovery rate has been about 75 per cent over the duration of the scheme, meaning that some participants are accumulating debts. Hence, the total debt in 2008, including current and unpaid loans, was MYR 463,843. Records for five leading farmers in the Subis KBT for 2006 to 2009 showed yields increasing from an average of only 5 tons/ha in 2006 to 16 tons/ha in 2009, with some regularly obtaining 20–25 tons/ha. Much of this increase was due to the increase in fertiliser use made possible by the scheme.

NOTES

1. This chapter is an edited and updated version of R.A. Cramb and P.S. Sujang, "The mouse deer and the crocodile: Oil palm smallholders and livelihood strategies in Sarawak, Malaysia", *Journal of Peasant Studies* 40 (2013): 129–54. It is reproduced here with permission.
2. As noted in Chapter 6, after 33 years in the position, Taib stepped down as Chief Minister in 2014 and moved to the ostensibly ceremonial role of Governor or Head of State (*Yang di Pertua Negeri*).
3. As explained in Chapter 6, native customary land is narrowly defined in the Sarawak Land Code (1958) as untitled land held by licence from the state, primarily on the basis that it had been cultivated by traditional means (i.e., shifting cultivation) before 1958. However, several landmark cases in the High Court of Sabah and Sarawak have challenged this narrow interpretation of customary rights, especially as it has been applied in recent government policy and practice (Cramb 2007; Chapter 6).
4. Quoted in *Sarawak Tribune*, 9 Dec. 1984.
5. With characteristic irony, local critics of the joint-venture approach have made the acronym LCDA stand for "Let's Chase the Dayaks Away" and "Let the Chinese Develop the Area"!
6. The term "peasant" is considered anachronistic and derogatory in the contemporary Malaysian context, whereas "smallholder" is a well-established term.
7. However, even here the contrast is becoming somewhat blurred. There is now an increasing number of intermediate cases, where an absentee landowner (often an urban-based professional with rural roots) employs labour (not necessarily full-time) to develop and manage a relatively small area (say 20–30 ha), while providing all inputs and intermittent direction.

These are smallholders in terms of area but not in terms of the mode of labour and management—perhaps "absentee", "part-time" or "urban-based" smallholders would be appropriate terms (Figure 7.2).

8. Nevertheless, small-scale processing technology has been utilised in some countries and small- to medium-scale oil palm production has been the dominant mode in Thailand (Chapter 5).
9. Clifford Sather, pers. comm., 31 May 2011.
10. The government envisaged it as a multi-ethnic settlement project, but the targeted Malay and Chinese populations in southern Sarawak refused to move; among the Dayaks, only the highly mobile Iban were keen to take up the opportunity (Cramb 2011b).
11. Sarawak Plantations Berhad was set up to acquire the oil palm assets of the Sarawak Land Development Board (SLDB), which was to have been the vehicle for settling smallholders in northern Sarawak (Cramb 2011a).
12. Some smallholders have purchased oil palm seedlings from larger estates.
13. Netting (1993: 2–3), though emphasising that smallholders have "ownership or other well-defined tenure rights" and a significant "measure of autonomy and self-determination", adds that "they are also members of communities with common property and accompanying institutions for sharing, monitoring, and protecting such resources." While this is generally the case in Sarawak, the presence of numerous independent Chinese farm homesteads producing rubber, pepper, vegetables, and livestock requires a broader view (T'ien 1953; Cramb 1983).
14. Interviews with officials of the Department of Agriculture, 2008–09.
15. Interview with general manager, Sarawak branch, Malaysian Palm Oil Board, Kuching, 15 Aug. 2008.
16. However, in the Lemanak Oil Palm Scheme, where the land was traditionally held in common (*tanah saum*), the members of each participating longhouse worked on the land communally.
17. Information from interviews and personal communications with SALCRA staff, Kuching, Apr. 2008.
18. The second author originates from one of these longhouses.
19. A fuller version and analysis of the history of the Sungai Bok communities is given in Cramb and Sujang (2011).
20. This is consistent with the experience of larger smallholders in KBT Subis who significantly increased their yields once they had access to credit for fertiliser (*see* appendix).
21. However, some households had lost land in the deal with Rimbunan Hijau and the Department of Land and Survey described earlier.
22. Contrast this situation with the disequalising effects of the oil palm boom in Jambi, as described in Chapter 4, the cocoa boom in Sulawesi

as analysed by Li (2002), or of the teak boom in northern Laos (Newby and Cramb 2012).

23. This on its own is just below the rural poverty line used in the Ninth Malaysia Plan (2006–10), set at MYR 698 per month for a family of four. However, it was not the only source of cash income for the households in the survey, and they also grew a substantial proportion of their rice requirements.
24. This is well above rural wage rates of up to MYR 30–35 per day.
25. Interview with Bumphray Kuntoi, formerly Divisional Agricultural Officer, Sri Aman Division, July 2009.
26. Interviews with Wong Ting Hun, Peladang Berdikari, Apr. 2008; Bumphray Kuntoi, Department of Agriculture, July 2009.
27. Interview with Wong Ting Hun, Peladang Berdikari, Apr. 2008.
28. The ultimate source of credit was AgroBank, described as a "government-linked" bank, formerly Bank Pertanian (Agriculture Bank).
29. Information from interviews with officials of MPOB (Kuching office), Aug. 2008, and the Farmers' Organisation (Miri office), July 2010.

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CHAPTER 8

Oil Palm Plantations and Conflict in Indonesia: Evidence from West Kalimantan

Patrice Levang, Wahyu F. Riva, and Meri G. Orth

Over recent decades, oil palm has become a highly controversial issue. Miracle crop for some, evil crop for others; nobody remains unconcerned. For the industry, oil palm is a godsend, "a gift from nature, a crop for life."[1] From an agronomic point of view, oil palm is a high-yielding crop, responding well to fertilisation, and producing on average four to five times more oil per ha (4–6 tons of palm oil per ha) than rapeseed, the second ranked oil-producing crop (Levang et al. 2008). Geneticists consider that there is still much room for progress, and oil yields of 8–10 tons per ha are forecast in the near future. Oil palm extends over only 5 per cent of the total surface area devoted to oil crops but provides 30 per cent of the world's vegetable oil production (Levang et al. 2008). Over time, palm oil has replaced most vegetable oils, especially in the agro-industrial sector. Well-managed oil palm procures high returns to the industry, and as an export crop, it is very attractive to foreign capital. In Indonesia and Malaysia, the sector enjoys rapid development and long-term trends are very favourable, with steady increase in demand for vegetable oil from emerging countries (India and China), and to a lesser extent for biofuel production. In Indonesia and Malaysia, oil palm is a major

source of wealth for the state, for companies, and for farmers (Rist et al. 2010).

On the other hand, the press regularly relays the concerns of non-governmental organisations (NGOs) regarding the negative impacts of oil palm development. Oil palm is accused of fostering deforestation in the tropics, endangering the survival of emblematic species like the orangutan, and contributing to the loss of biodiversity, soil erosion, pollution of soils and waterways, and greenhouse gas emissions (Fargione et al. 2008, James 2008, Koh and Ghazoul 2008, Butler and Laurance 2009). Critics allege that oil palm development is detrimental to local people as it dispossesses them of their traditional land and leads to human rights violations, while also negatively affecting human health, destroying cultural heritage, leading to the loss of autonomy and self-sufficiency, and resulting in impoverishment as a result of debt and low wages (WRM 2001; Colchester and Jiwan 2006; Colchester et al. 2007; Marti 2008).

As usual, both sides are right—and wrong. While the industry tends to downplay its negative impact on the environment and the excesses of some companies, many NGOs tend to exaggerate the negative social impacts of oil palm development.[2] NGOs, generally followed by the press, have a tendency to present local people as communities living in harmony with nature, ecologically noble savages, and/or powerless farmers facing unwanted livelihood options. Our experience in Sumatra and Kalimantan suggests quite the opposite. Whenever queried, local farmers always express a strong desire for development and lament the limited options at hand to reach their goal (Feintrenie et al. 2010). Most forest people are very individualistic and seldom refrain from plundering natural resources when they are in a position to do so. In all locations, communities have growing monetary aspirations; they desire a regular source of income to secure greater access to education and healthcare, as well as to purchase motorbikes and electronic goods. To attain such goals, oil palm offers the best choice at hand. Numerous studies have shown that oil palm is a profitable land use for smallholders (Susila 2004), more profitable than rattan or rubber (Belcher et al. 2004), and more productive than other vegetable oils (Thoenes 2006) (Figure 8.1).

So why do we see so much conflict? Numerous campaigns by NGOs have shown how vulnerable indigenous communities have lost their customary forests, and therewith their livelihoods, to large-scale

oil palm plantation companies (WRM 2001, Colchester and Jiwan 2006, Colchester et al. 2007, Marti 2008). To NGOs, the prevalence of conflicts between local communities and companies is regularly used to suggest that local communities reject oil palm. We argue that such allegations are both incorrect and contradict the aspirations of local peoples, and in some cases, NGO advocacy may even fuel conflicts rather than solve them (Potter 2008). We suggest that the opponents to oil palm development tend to confuse oil palm as a crop with the large-scale development schemes that exploit it. Denouncing oil palm as an evil crop is similar to holding sugarcane and cotton responsible for the former slave trade from Africa to the Americas. We assert that most of the problems (especially conflicts) associated with oil palm are not related to oil palm as a crop but rather to the way the oil palm complex works in Indonesia.

In this chapter, we focus on oil palm conflicts in West Kalimantan in the 2000s. First, we categorize conflicts according to their cause

Figure 8.1. Smallholder oil palm can be a profitable land use for rural households (Photo: artpixelgraphic studio/Shutterstock)

and the source of grievances, insofar as there is one clear cause for the conflict—clearly some conflicts are multi-dimensional and involve a wide set of grievances. Second, we describe the triggers that lead to escalation into conflicts/disputes. Last we touch upon dispute resolution and how governments, companies, and NGOs manage or address conflicts.

A TYPOLOGY OF CONFLICTS IN WEST KALIMANTAN

To illustrate our argument, we use the very data about conflicts provided by local NGOs opposing oil palm development in West Kalimantan. Conflicts between "indigenous people" and oil palm plantations are neither new nor are they restricted to West Kalimantan (Marti 2008). Similar conflicts have taken place during the aggressive oil palm expansion in Sumatra, and similar conflicts are expected to occur in Sulawesi, Papua, and small islands in Eastern Indonesia as the oil palm industry expands eastwards (Sirait 2009). However, West Kalimantan has recorded the highest number of conflicts in Indonesia.

We compiled secondary data from district statistics, local newspapers, local government regulations, the pro-Dayak magazine *Kalimantan Review*, and previous studies. In order to complement the data from this desk review, we interviewed Indonesian and local NGOs, including SPKS (*Serikat Petani Kelapa Sawit*—Union of Oil Palm Farmers), WALHI KalBar (Friends of the Earth, West Kalimantan), Madanika Foundation, AMAN KalBar (*Aliansi Masyarakat Adat Nusantara*—Indigenous Peoples Alliance of the Archipelago), Institut Dayakologi and Sawit Watch, as well as the Agriculture and Forestry District Office in Sanggau. Additionally, we held focus group discussions with farmers in the Sanggau, Sekadau, and Sintang districts. From the data published by Institut Dayakologi, WALHI, AMAN, Yayasan Madanika and Sawit Watch for the period 1999–2009, we documented a total of 119 conflicts related to oil palm plantation development in West Kalimantan.[3]

In mid-2009, some 525,000 ha of oil palm were already planted in West Kalimantan, and another 5 million ha were planned for the coming years, making it the second largest target area for expansion after Papua (Sawit Watch, unpublished). West Kalimantan has the second highest intensity of land conflicts related to oil palm plantations in Indonesia after South Sumatra (Sawit Watch, unpublished).

Most of the conflicts documented occurred in the districts of Sanggau (31 cases), Ketapang (27 cases), Sintang (17 cases), Sekadau (14 cases), and Sambas (12 cases). Almost half of the conflicts arose between 2006 and 2008, coinciding with the boom in oil palm expansion there. A closer look at the 119 conflicts related to oil palm plantation development in West Kalimantan during the period 1999–2009 reveals the different causes for conflicts (Table 8.1). These are discussed in turn.

Table 8.1. Oil palm conflicts in West Kalimantan by cause, 1999–2009

Category	*No. of cases*	*% of cases*
Unwanted land conversion	53	45
Rejection of companies	24	20
Partnership schemes	20	17
Deception	10	8
Environmental pollution	5	4
Horizontal conflict	3	3
Theft of fresh fruit bunches	2	2
Internal management	2	2

Source: Our compilation of NGO data.

Unwanted Land Conversion

In West Kalimantan, as in many other Indonesian provinces, the land rights of local land users are unclear and seldom formally identified. To company representatives, conflicts regarding land property rights are considered the most complex and difficult to address. As concessions and licenses are the government's responsibility, companies argue that it is also the government's responsibility to determine and address these rights (Wilson 2009). Disputes frequently arise on lands with unclear, ambiguous, or competing claims. Such claims to land and forest resources have evolved into protest, resistance, and violence, in some cases with lethal consequences (Casson 2000, Wakker 2004).

The data from this research show that in West Kalimantan most conflicts were due to unwanted conversion of lands, including agricultural lands, such as rice fields, customary forest, and sacred sites such as burial sites. This reflects land grabbing by powerful outsiders benefitting from the support of the government. Local people have

understandably opposed land grabbing. Of course, as oil palm development is most active in West Kalimantan currently, it is seen as the major culprit. But land grabbing is not limited to oil palm development—the same problem arises with logging concessions, coal mining, and forestry plantations.

Rejection of Companies

In 20 per cent of the cases recorded, local communities rejected the expansion of oil palm companies into their village area. They advanced a number of reasons, such as the fear of losing their forest and the livelihood opportunities they find there, losing ownership over customary lands, the pollution associated with wastewater from the mill, and negative impacts on customary law and social affairs (Orth 2009).

In these cases, local people reject the proposed plantation system rather than oil palm as such. Indeed, oil palms can be found in backyards and surrounding the houses of local communities all over West Kalimantan. People are repudiating a system that is externally imposed, without any means of public participation. This is less attractive than if the same system were self-adopted, under their own conditions and at their own pace, after having witnessed neighbouring communities benefiting from planting oil palm.

Partnership Schemes

To support oil palm plantation development, especially during the land acquisition process, many local governments have issued regulations on partnership schemes for oil palm plantations (Sirait 2009). In official statistics, roughly 1.5 million smallholders contribute 44 per cent of the total planted area, but have a lower productivity than private companies (IPOC 2009). Their mean yield (2.5 t CPO/ha) is only half that of large-scale producers (4–6 t CPO/ha) (Goenadi 2008).

Under the nucleus estate and smallholder (NES) schemes (Chapters 2 and 3), local communities handed over their land to the plantation company, which then returned planted smallholdings to each family (*plasma*) and managed the remaining land as part of its core area (*inti*). In West Kalimantan farmers typically contributed 7.5 ha of land and received 2 ha in return, either already planted with oil palm or with company assistance to develop oil palm on the plot (Sirait 2009). The company would buy the fresh fruit bunches from the farmer. The investment costs for land clearing, seedlings, weeding,

and fertilisation would first be paid by the company and then repaid by the farmers through deductions from their monthly income from selling the harvested fruit (Gaiser 2009).

In March 2008, under the "partnership" model (Chapters 2 and 3), PT Borneo Ketapang Permai sought to implement the 80:20 scheme, whereby the community from the village of Thang Raya in Kembayan district would provide the land to be planted with oil palm by the company and of which, only 20 per cent would be returned for the community to manage. The farmers reckoned the scheme was not beneficial enough for them and demanded the land be split 60:40. District officials mediated the conflict. One year later, the conflict was still ongoing and no agreement had been reached.

Apart from conflicts driven by those communities that reject the partnership scheme, conflicts also occur after initial acceptance of a partnership. In Bengakayang district, the Dayak Bakati community provided the plantation company with land as agreed in the year 2000, but are still waiting to receive their agreed share of the planted land. In Kembayan sub-district, Sanggau, the land has been returned to the community, but in unequal shares. Smallholders in many cases objected that the land returned to them had the least suitable, sandy soils and was further from the mill and more difficult to access than the core estate. Other complaints included the lack of credit and loan transparency.[4] Outgrowers in Nek Sawak, Sanggau, have long questioned the IDR 11 million (USD 1,200) credit they obtained under the partnership scheme with PT Surya Pratama Duta. The loan repayment continued more than 13 years after planting the oil palm, while with good prices for fresh fruit bunches, debts can typically be paid off within six years of production (Feintrenie and Levang 2009). The farmers complained that the burden of the credit was unclear and they suspected the loan should have long since been paid off. This can easily occur as few farmers actually read and understood their contract with the company and instead have relied on verbal agreements (Rist et al. 2010).

Deception

In the hinterland of Kalimantan, many of the indigenous Dayak communities feel left behind and excluded from the modern world, leaving them susceptible to false promises (Orth 2009). Local communities are often poorly informed and easily lured into believing

oil palms will grow with little maintenance and provide high returns even in unsuitable areas (Padmanaba and Sheil 2007). Anticipating such a mindset, companies may carry out the obligatory "*sosialisasi*" (a face-to-face meeting between the community and the contractor to introduce themselves and their plans) to convince local communities to surrender their land for conversion to an oil palm plantation (Palmer 2005).

During such "*socialisasi*" activities, company representatives often promise development in the form of roads, schools, clinics, and employment, citing high prices that the fruit can be sold for and the wealth that landowners can gain from it. Companies subsequently often fail to meet these promises (Marti 2008). The informality of promises made by company representatives, often in a face-to-face manner without written documentation, complicates the issue of agreements, as they cannot be definitively substantiated.[5]

The secure income that regular employment provides is an especially attractive incentive for the younger generations (Boedhihartono 2004; Levang et al. 2005). Companies, however, contend that local people lack the necessary skills and work discipline for such jobs and prefer to hire a workforce recruited elsewhere (Boedhihartono et al. 2007). These divergent assumptions easily lead to conflicts.

In Ngabang, a sub-district of Landak, the state-owned company PTPN XIII spoke of high yields from the oil palm plantation that would be sufficient for daily needs. The communities were not however well informed about the three to four year period before the oil palms would become productive. During this period, the farmers' monthly income was less than IDR 100,000 (USD 11), leaving them worried about their future. Moreover, the palms required a lot of fertiliser, an expenditure that would increase the yield, but also required large cash inputs. Documentation shows that in several locations in Kalimantan people have sold their oil palm plots before the palms were productive or when the price for fresh fruit bunches was low, hence sowing the seeds of resentment for future conflicts (Gaiser 2009; Orth 2009).

Environmental Pollution

Environmental pollution is often mentioned as a main impact of large-scale oil palm plantations (Zen and McCarthy 2010). Elsewhere,

scholars and activists worry about biodiversity impacts (Fitzherbert et al. 2008; Danielsen et al. 2009; Wilcove and Koh 2010) and the greenhouse gases emitted during clearing of tropical rainforest and drainage of peatlands (Greenpeace 2007; Germer and Sauerborn 2008; Dewi et al. 2009). In addition, local communities in West Kalimantan are concerned about the contamination of local rivers. Local communities have reported leakage of pesticides and herbicides, soil erosion, and wastewater dumping as causes of water pollution. However, such conflicts only constitute four per cent of the total number of cases.

Horizontal Conflict

Horizontal conflicts occur within a community or between communities. Differences of attitude towards the company or unequal distribution of benefits can trigger intra-community conflicts. Such conflicts emerge when local elites or village officials receive informal fees to pressure villagers to accept the company's offer (Potter 1998). For example, in 2008 in Biang Marau and Tapang Rentong in Sekadau, some community members were willing to transfer land to the oil palm plantation company PT Agrindo Prima Niaga while others were not. Horizontal conflicts may be resolved through customary law or they may be too small to be documented. Frequently, the company is blamed (Orth 2009).

Theft of Fresh Fruit Bunches

Occasionally, there are reports of the theft of fresh fruit bunches on lands formally belonging to indigenous communities. As community members justify this act by arguing that the palms are planted on their land and thus belong to them, and hence, may be presented as a form of community resistance. However, in other instances, local communities harvested palms owned by the company as their own oil palm plots did not provide sufficient yield to support their daily needs (Colchester et al. 2006).

Internal Company Management

Problems related to internal management of the company cause yet more conflicts. This occurred, for example, in Kembayan, Sanggau, when in 2005, the local community demanded PT Karya Mufakat

Lestari improve plantation management. After the initial planting, the company was no longer able to perform operational activities, causing suboptimal yields and income for the out growers. In 2000, the local community of Manis Mata, Ketapang district, protested to the local government, accusing PT Harapan Sawit Lestari of manipulating data and selling plots to civil servants in order to embezzle development funds worth USD 32 million (Institut Dayakologi 2003).

FROM GRIEVANCES TO CONFLICTS

What constitutes a "conflict"? NGOs generally avoid defining what constitutes a conflict. This makes sense since the more conflicts they record, the stronger their case. Thus, any legal case, grievance, or even dispute can be registered as a conflict. Furthermore, a simple grievance, if not tackled appropriately can evolve into a dispute, escalate into a violent conflict, and finally end up as a legal case. Grievances may remain just that, but many do escalate into conflicts. Most conflicts remain non-violent. However, in some cases with inadequate conflict management, they escalate into violence. This generates the headlines are as familiar to the local and national press. Some examples of escalating conflicts follows.

After PT Sinar Dinamika Kapuas initiated their operations in Sintang district in 1995, they were reminded not to expand into the customary forest owned by some residents of the village, Merawai II. The forest contained illipe nut, durian, and other valuable trees planted by village ancestors. At the outset, the forest was indeed kept intact, but eventually the company clandestinely started converting the forest to plant oil palm seedlings. Informal resolution efforts failed as the company hired a third party to intimidate the community. In August 2001, 11 families, heirs to the converted forest, filed a claim for compensation to the company.

Conversion has also occurred when companies illegally set fire to clear land, with the fire spreading in the dry conditions into surrounding lands outside the concession area. The Engkuning community from Sekadau has been in conflict with PT Andalas Patriot (of the Bakrie Group) since 1996. The company was sold to PT Parna Raya, but the conflict remained unresolved. In March 2007, when the company used fire for land clearing, the fire spread to the rubber plantations owned by several community members. Consequently, the

community sued the company for compensation. As of late 2009, this issue had yet to be completely resolved.

It is not always the case that companies are to blame. Company managers claim that local communities also know how to take advantage of unclear tenure in order to pressure companies for compensation. Oil palm estates can make useful scapegoats and milch cows. There are many examples of local communities making unreasonable claims and demands on companies, and even pressuring or blackmailing them. The perception of the powerless community facing an arrogant company was true during the New Order, but may not always be the case now.

Local governments can also have an ambiguous position, particularly in the more decentralised era. Officials typically side with companies who provide the main source of regional fiscal revenue, as well as extra funds during the process of land acquisition (Chong 2008). However, they also side with their constituency, especially during election time. As they are the only recourse for companies in the case of escalating conflicts, some elites have been accused of playing a double game (Chong 2008).

Regardless of the type of land that is converted and the method of conversion, lasting conflict between oil palm companies and local communities tends to follow a pattern of escalation. A plantation company obtains a licence from the government for oil palm development. Due to the discrepancy between the national and customary tenure systems, many of these licences are located on land owned (or claimed) by local communities. Local people have long grown tree crops and other beneficial species on this land, which to an outsider might appear to be unmanaged or wild forest. During the New Order period, local communities often first found out about land conversion plans when bulldozers came in (Colchester et al. 2006). Naturally, this resulted in anger within the local community, but most protests only occurred after the end of the New Order.

Nowadays, communities negotiate access, but are often lured into unfair deals, feeling either forced to join the scheme (Orth 2009) or because of impatience waiting for land values to increase (Rist et al. 2010). Company and/or local government representatives may make verbal promises or statements regarding compensation, participation in a plantation scheme, or construction of communal facilities, often through a spokesperson of the community or even the village head.

Village heads and other officials may receive "incentives" for compliance. Disappointed that the promises did not materialize, or misunderstanding promises that passed several intermediaries before reaching them, community members again protest to the local government and company representatives.

Inequality in economic and political influence and access to knowledge and information between the actors, combined with inadequate communication, contribute to the conflict. If nothing is done to resolve the conflict, more action may be undertaken; it is sometimes violent, such as confiscating equipment and vehicles, occupying base camps, setting up roadblocks, and stealing fruit from the palms planted on community land. Not knowing how to deal with these actions, the company may hire local police, security guards, or other armed corps to intimidate the local community, resulting in a downward spiral into yet more violence.

CONFLICT RESOLUTION

While other factors described in this chapter add to the frequency, intensity, and duration of conflict, the absence of effective conflict resolution mechanisms has exacerbated the problem. At the base of many conflicts is the sense of unfairness in the way that decisions about oil palm development are made. In general, people's perception of the fairness of a decision-making process influences whether they choose to comply, withdraw, or embark on a course of immediate confrontation and conflict (Greenberg and Colquitt 2005; Conlon et al. 2005). When people can voice their views and opinions in a dispute, this has a strong positive effect on their perception of fairness and their reaction to a decision (Thibault and Walker 1975; Cohen 1985). This so-called "fair process effect" contrasts with the intimidation techniques now used by many oil palm companies in Indonesia, which are likely to produce less favourable conditions than if all parties entered into genuine negotiations to discuss possible solutions.

The Roundtable on Sustainable Palm Oil (RSPO) has set up a Grievance Procedure to address complaints against its members, but outcomes have been slow to emerge (Chapter 11). The RSPO also established a Dispute Settlement Facility to offer mediation to resolve land-related conflicts. This mediation facility may offer an opportunity

for plantation companies, local communities, and other relevant stakeholders to address disputes in a timely fashion, with independent mediation to prevent a downward spiral of conflict.

Media exposure of the negative impacts of oil palm plantations by NGOs may also induce market changes and revolutionise company behaviour, such as with large companies such as Unilever and Nestle.[6] However, instructions from senior management do not always reach those who implement plantation management. The NGOs involved must therefore also work with the palm oil industry during implementation. Facilitation between companies and local communities is needed as research has shown that communication is an effective mechanism to increasing collaboration and benefit sharing (Purnomo et al. 2009). To reduce conflict, NGOs can better support local communities by improving the transparency and comprehensibility of schemes offered by oil palm companies, and providing training to increase the communities' negotiation skills. The increased knowledge and understanding of what can be expected, combined with enhanced communication and negotiation skills, will improve local communities' position in relation to plantation companies and may therefore prevent the escalation of conflicts.

CONCLUSION

By presenting oil palm as an evil crop, NGOs are taking aim at the wrong target. In their plea to defend indigenous communities against this "invasive" species, they act against the interests of these very communities by preventing them from accessing a commodity that can provide high returns to land and labour.[7] Oil palm is merely a crop; it cannot be held responsible for land grabbing or the displacement of local communities. Such displacement, when it occurs, is the result of land grabbing by more powerful stakeholders, and this will not stop with the boycott of palm oil. The expansion of oil palm plantations faces the same problem as other land uses, such as coal and gold mining or the expansion of pulpwood plantations. In many contexts oil palm could be replaced by another commodity potentially far less beneficial to local communities.

The source of the problem lies in power relations—the control exercised by a select group of powerful actors over stakeholders with

customary claims to land. Public participation through the implementation of the principle of free, prior, and informed consent remains indispensable if conflicts are to be reduced. A system implemented from the top down on land with competing claims is bound to result in conflict.

The main challenge ahead is to ensure that local communities share the benefits, rather than generating windfall gains for brokers and mediators who profit from conflict. Given that the further expansion of oil palm is more or less inevitable (Rist et al. 2010), we are now beyond the stage of awareness raising. Active engagement of NGOs is required to ensure the emergence of a more sustainable production system that supports the desire of local communities for autonomous development. Clear and accurate information about their options can help communities better assess companies' offers (Padmanaba and Sheil, 2007) and this is where NGOs can offer guidance.

NOTES

1. Tan Sri Datuk Dr Yusuf Basiron, CEO of the Malaysian Palm Oil Board.
2. Of course not all NGOs reject oil palm development, and such rejection is not limited to NGOs. Our objective is not to demonize NGOs. In the text hereafter, for the sake of simplicity, we refer to opponents to oil palm development as NGOs.
3. *Majalah Kalimantan Review*, Institut Dayakologi, Kalbar, edition 1999–2009; Profil Kasus Sawit Kalbar tahun 2008, WALHI Kalbar; Data Kasus Sawit Kalbar tahun 2006–09, AMAN Kalbar; Data Kasus Sawit Kalbar tahun 2006–07, Yayasan Madanika, Kalbar; Data Kasus Sawit Kalbar tahun 2005–06, Sawit Watch, Bogor.
4. This statement is based on informal discussions with NGOs, dependent smallholders in Central Kalimantan (2007), and dependent smallholders in Jambi (2010).
5. Based on experience and informal discussions with NGOs, villagers, and a community relations officer from a coal mine. The EIA/Telapak (2009) report *Up for Grabs* remarks "so none of these incentives are legally guaranteed." See also Behrman et al. (2011) who call for governments to "ensure that investors meet promises to invest in public services and communities".
6. Unilever takes stance against deforestation (11 Dec. 2009), http://www.unilever.com/mediacentre/pressreleases/2009/Unilevertakesstanceagainstdeforestation.asp; Nestle Statement on Palm Oil (17 Mar. 2010), http://

www.nestle.com/MediaCenter/SpeechesAndStatements/AllSpeechesAndStatements/statement_Palm_oil.htm.

7. Again, not all NGOs are doing this. Some NGOs, even among the most powerful, are members of the Roundtable for Sustainable Palm Oil and engage with companies to find adequate solutions to environmental problems.

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CHAPTER 9

People, Participation, Power: The Upstream Complexity of Indonesian Oil Palm Plantations[1]

Piers Gillespie

Indonesia has been experiencing extremely rapid development and expansion of oil palm plantations over the past 15 years across a number of the nation's provinces. Such growth suggests that Indonesia now has at least 10 million ha of oil palm plantations (Directorate General for Estate Crops 2013), although this amount may be significantly more due to the ongoing desire of independent smallholders to continue to convert local land to oil palm plots. Such a rapid expansion of plantations has resulted in a diversity of land use arrangements that in turn have led to a variety of plantation-community outcomes for stakeholders at the mill-plantation-community interface.

This chapter focuses on four key local stakeholders in an Indonesian oil palm plantation—company, government, cooperative and community—to provide insight into how prevailing participatory processes and power structures influence plantation-community outcomes. The chapter discusses how power imbalances and outcomes between key players at a plantation are generated as a by-product of the specific locales, interactions, land use arrangements and divisions, and particular plantation company's attitudes to community relations. An example is the process of "community awareness-raising" (*sosialisasi*) that is undertaken in a rudimentary fashion with a local community

encumbered with a potential plantation expansion, in which communities are inevitably disempowered through a lack of plantation-specific knowledge. However, the antecedents to such a process are always varied—it could be due to an intentionally biased *sosialisasi* program, the desire by a community to join a plantation and move away from previous lifestyles, a deception perpetrated by a tight company-local government nexus, or a lack of balanced information provision due to community members either lacking interest or access to objective background material. What often results is that many remote communities struggle to understand critical plantation information from the outset of the plantation-community relationship.

Equally, however, although smallholders face a series of major legal, agricultural, and often practical challenges (Gillespie 2011), some smallholders and communities are able to exercise significant agency in their decision making concerning their engagement with a plantation mill. This can leave them in an advantageous position, for example, with regard to maximizing individual land ownership within the plantation, or with the selection of particular community members for plantation work (Gillespie 2012). In other circumstances, a smallholder's oil palm plot is not the only source of income for a household, and thus the desire to focus solely on their palm crop and implement better agricultural practices and sustainability initiatives may not be on a farmer's immediate radar, despite the often fervent desire for donor organisations who may wish for this to be so. Such analysis and understanding is important, because it suggests that any development or commercial approach that tries to "scale-up" smallholder or broader rural development projects without having a deeper understanding of prevailing and specific local attitudes to rural development and community history is naive at best and dangerous at worst for those who stand to lose the most—the local communities surrounding a plantation.

Based on fieldwork in 2008–09 and subsequent plantation consulting by the author, this chapter explains some of the more predictable outcomes and the power relations that often exist at plantations locally. As in any social field, local relationships and the ways that power interplays between groups in a plantation are neither one-dimensional, nor do they continue in perpetuity. Muddying matters further is that often what state law deems to be relevant and important, especially where there is a significant investment involved such

as a plantation, which local customary and village beliefs do not (von Benda-Beckmann and von Benda-Beckmann 2002: 4; Falk-Moore 1973). Instead, strategic relationships are often mutually cultivated at different times so that particular groups disproportionately benefit from specific localised arrangements. In such an environment, there are multifaceted power and control elements that a plantation company is often able to employ as a result of the politico-legal nexus, which sees it supported by district and national politicians, ill-equipped bureaucracies, local police, and pro-plantation legislation that can assist the plantation company (Gillespie 2011). This chapter discusses some of these elements, focusing on a number of formal and informal structures to demonstrate the power differential and interplay that exists between participating oil palm stakeholders at the plantation level. The provision of a series of different opinions and quotes from different stakeholders further exhibits the diversity of opinion and some of the inherent complexity of plantation management. The quotes add colour and reality to the way stakeholders participate in plantation life; either as a daily worker, a smallholder, or an estate manager.

As part of the plantation analysis, the chapter provides an overview of the relationship between participation and power and why an analysis of power relations is critical to any consideration of the effects of a participatory process in a development context. Central to the plantation power analysis is the production of a detailed stakeholder map of one plantation derived from fieldwork undertaken by the author when living in rural Kalimantan from 2008 to 2009. The map reveals the inherent complexity of social and economic interactions at the plantation level and some of the unanticipated ways in which stakeholders interact. Within a plantation, smallholder participation is defined by the way in which land is selected, zoned, and cleared; in the arrangements relating to how communities surrender their land to plantations; in how a plantation concession is divided between a majority company plantation and a smaller smallholder plantation; in how it is compulsory with some schemes for smallholders to join a cooperative (*koperasi*), which then represents and negotiates on their behalf with plantations; and in the roles played by district and sub-district government officials and other key local community members (Gillespie 2011, 2012). The way in which plantations and smallholders participate, first via the awareness-raising process and then predominantly via the cooperative, is in many respects

the village-level manifestation of the wider plantation political economy and regulatory environment (*see* Chapters 1 and 14).

Because power relations are intimately connected to how stakeholders communicate, the chapter reviews some of the more critical assessments of normative participatory processes in development and juxtaposes these with realities on the ground in plantations. It concludes that where participation is implemented in a normative fashion without taking into account the asymmetrical power relations that often exist in a relationship, no panacea will arise to closing out enduring social conflict or developing community-wide overall benefits. In such a situation, particular dynamics and circumstances will lead to more predictable outcomes, despite the diversity inherent in plantation-community outcomes across a given province. In order to achieve more harmonious and mutually beneficial outcomes at the plantation-community level, participation needs to mean more than simply getting a seat at a table, or a plot of planted oil palm. It must encompass an awareness of the power relations that exist, and a willingness of key parties to share power and benefits in a more equitable fashion.

KEY STAKEHOLDERS PARTICIPATING IN PLANTATIONS

Although oil palm yield has increased and processing technology has improved markedly in Indonesia over the past 15 years, one aspect of the industry that has not developed as rapidly is the way in which plantations and communities interact with one another and with other key stakeholders' groups locally. Complicating matters at the local level for plantations has been the changes brought about by Indonesia's decentralisation and the increasing demands for indigenous rights during this period (Lucas and Warren 2014). The rise in plantation-community conflict (ICAC 2014) is an increasing concern both for the Indonesian government as it continues its rollout of the Indonesian Sustainable Palm Oil (ISPO) assessments and for the management of individual plantations. This is of concern for plantations because it is not only the agricultural components in plantations that are critical to their business, but also the social and participatory aspects, which are often more complex and frustrating for estate managers and district governments to manage. One plantation estate manager describes how crucial the process of negotiation with local communities is—"If you

are opening up land in Indonesia for oil palm plantations, then you need to be really clear in community awareness-raising about a plantation (*sosialisasi*) and opening up the land. If you don't do this properly, then sooner or later you will be in trouble" (discussion with plantation manager, West Kalimantan, March 2009).

Despite a predominant focus on agricultural and supply chain issues, and more recently, a hopeful trend towards focusing on smallholder training and capacity concerns, the pivotal components of a successful plantation-smallholder relationship often relate to how effectively four key groups—government, smallholder cooperative, community, and oil palm plantation company—interact at the plantation level. In the simplified conventional plantation stakeholder map shown in Figure 9.1, the plantation company ("plantation") sits at the apex of engagement as all the other interactions follow from the establishment of the plantation locally (Figure 9.2).

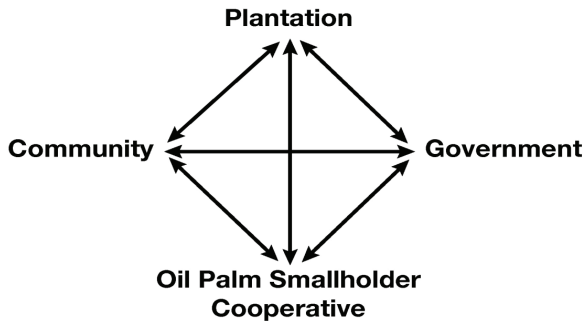

Figure 9.1. Simplified stakeholder map of an Indonesian plantation

The "government" group includes the sub-district, district, provincial, and national governments, which all influence proceedings within a plantation in a variety of ways (Gillespie 2011). The national government creates much of the macro-legal environment in which plantations operate in Indonesia. National legislation fundamentally affects how smallholders interact with plantations—their options, agency, and means of recourse (Emirbayer and Mische 1998). The provincial government is less prominent, although it currently plays an important role of monthly oversight of plantation operating costs and hence of the income smallholders are entitled to receive (Gillespie 2011). Officials at the district and sub-district level are particularly influential,

both in terms of the distribution of benefits between plantations and communities and how plantation companies adhere to legislative obligations (Gillespie 2011).

Figure 9.1 also includes the oil palm "cooperative" as one of the key stakeholders, as plantations increasingly seek to interact with smallholders not as individuals but via a cooperative. The cooperative is seen as the plantation company's partner, and the scheme known as Cooperative Members Credit Arrangement (KKPA—*Kredit Koperasi Primer Anggota*) partly explains how the farmers' cooperative was intended to be the main point of contact with the plantation company over the past 15 years (*see* Chapters 3 and 4; Gillespie 2012). Newer partnership (*kemitraan*) schemes and recent plantation legislation have reaffirmed the importance of cooperatives in providing plantation oversight for smallholders.[2]

Finally, the "community" group in Figure 9.1 includes those who are smallholder oil palm farmers and plantation workers as well as those who have not joined an oil palm plantation yet are affected by its presence. Many community members have benefitted from either

Figure 9.2. A large state-owned plantation in West Kalimantan (Photo: Lesley M. Potter)

ongoing or daily employment as planters, paid cooperative members, security staff, road repairers, mechanics (a highly sought-after job), and many other forms of employment. With the ability to obtain income from a variety of sources including oil palm production, paid employment, and alternative cropping, these individuals stand a good chance to improve their livelihood outcomes (Potter 2009). Other community members who either decided not to join the plantation originally or did not have enough land to surrender to the company do not generally benefit from these paying jobs. These community members may find their alternative crops deleteriously affected by indirect effects, such as rat and pest plagues brought by the oil palm fruit, and indigenous cultural leaders may find their traditional authority reduced as an influx of cash leads to rapid changes in both spending ability and outlooks (Gillespie 2010). Increasingly, plantation-related conflict is seen at the intra-community level, where neighbours disagree over the benefits of oil palm for the community at large, or conflict arises over land ownership, overlapping claims, and the release of land to a plantation. Profound diversity thus exists within this community group at sub-district, district, and national levels (Gillespie 2010).

If it is indeed difficult for smallholders to engage on an equal footing with plantation companies, how is such an environment and power imbalance created? Certainly, many smallholders are disempowered from the beginning of the relationship due to a lack of awareness-raising, and they are unable to fully comprehend the wholesale changes that occur as a result of joining a plantation. Others are excluded from the clientelist relations that benefit some smallholders and overlook others (McCarthy and Zen 2010). Highly sought after positions such as training as a mechanic or working in the office are a rarity, and are only given to those few smallholders who have some form of schooling, or to those whose families are strategically important to the plantation—for example, the son of the cooperative leader, the cousin of a local politician, the nephew of a district government official (Gillespie 2010). It is a sensible strategy by the plantation because it creates circles of dependence between key local stakeholders and the plantation itself. Such opportunities for the majority of smallholders are limited.[3] The chapter demonstrates some of the diversity and complexity that exists within a plantation. It concludes by arguing that the perpetuation of normative participatory processes used by plantation companies reinforces existing power imbalances because

these processes fail to take into account the informal and critical power relations that exist between the various main local stakeholders.

PARTICIPATION AND POWER IN RURAL DEVELOPMENT

Over the past 25 years, participation has become one of the mainstays of policy and planning, particularly in the fields of development and natural resource management (NRM) (Leal 2007: 539, Campbell and Vainio-Mattila 2003: 421.) Ostrom explains the increasingly strong belief that local perspectives are fundamental for any assistance project to increase local buy-in and minimise conflict; Ribot suggests that, for all its weaknesses, participation can reduce economic costs and increase managerial efficiency (Ostrom 1990, Ribot, 2001: 333). Yet defining participation remains an enduring challenge: normatively, it is seen as a process that brings together stakeholders to define critical issues and develop common goals (Lecwicki and Elliot 2005: 17).

Although the use of the language of participation and partnership pervades much of development policy, detailed critical analysis of its meaning is far less common. Within such a definition, there remains strong normative beliefs that reinforce the linear assumption that an increase in participation leads to increased representation, empowerment, benefits for all, and poverty reduction (Blair 2000: 25). Indeed, much of the construction of participation in international development is used without any explicit consideration of ontological and epistemological positions (Martinussen 1997: 326).

A number of academics and practitioners have tried to deconstruct participation into more understandable typologies and draw out some of its nuances; Arnstein's ladder remains the best known and oft-used continuum (Arnstein 1969, Foti in Daviet 2011, White 1996, Hildyard 2001). The most useful of these deconstructions are ones that focus on where the balance of power lies in regards to formal and informal decision making (Agrawal 2001: 1624, Spivak 1990). The most complex and pessimistic narrative of power, participation, and representation is given by Spivak (1990), who focuses on the inability of the modern political culture to properly represent those less powerful on the participation spectrum, who are neither able to represent themselves adequately nor be represented by others, "as those

who would speak on their behalf have no right to do so" (Spivak 1992: 69).

Thus, while the voices of development practitioners and those advocating increased participation in its myriad forms within the development field have become louder, there has been an increase in criticism by some of the normative processes underpinning participation. This criticism has come from two broad sources: one group associated with the development sector and the second group examining participation based on critical, Gramscian, or postcolonial analysis (Cornwall and Brock 2005: 1045). Partly as a result, practical suggestions about how to increase the effectiveness of participatory development programs have increasingly been provided. However, much of the desire to implement participation in development has resulted in programs being altered, less due to any serious desire to include disempowered people than to ensure that such participation fits with previously arranged project timelines (Walker et al. 2007). Indeed, while a number of the strategies—open dialogues, roundtables, stakeholder engagement, and the like—involve the affected people, what inevitably occurs is an increase in the number of multi-party discussions while the most important decisions continue to be made elsewhere by others.

One example of participatory praxis is the "new black" of participation—stakeholder engagement. At face value, stakeholder analysis or engagement is a useful participatory tool. It is based on the rational assumption that one of the main obstacles to open and fruitful discussion with multiple parties stems from a lack of genuine open communication and that, once this barrier is removed, it is possible to build a common vision and achieve a solution following the best rational argument. The prerequisites for such a process are that: (a) stakeholders accept their interdependencies; (b) they are willing to communicate and learn from each other; (c) they are willing to actively tackle the problems discussed; and (d) each participant is interested in reaching a negotiated agreement (Fayesse 2006: 219). Put another way, "if dialogue is properly organised, then consensus can be reached" (Sultana and Thompson 2004: 82, in Faysse 2006: 222). As a result, much of stakeholder engagement rests on the erroneous assumption that by identifying different stakeholders and getting them to openly discuss issues, there is a significant chance of finding fair outcomes for all.

An example of such a belief can sometimes be seen in the interactions within the Roundtable on Sustainable Palm Oil (RSPO), a voluntary organisation committed to the production of sustainable palm oil and whose members include stakeholders across the international palm oil supply chain (*see* Chapters 2 and 12). The RSPO is a consensus-based, multi-stakeholder initiative that "lives out the philosophy of the 'roundtable' by giving equal rights to each stakeholder group to bring group-specific agendas to the roundtable, facilitating traditionally adversarial stakeholders and business competitors to work together towards a common objective, and making decisions by consensus" (RSPO 2012).

While the desire for working together to make decisions is commendable, assumptions about consensus and equal rights being given to individual stakeholder groups only hold if all the actors involved have approximately equal bargaining power and a commonality of motivation. When this is not the case, many stakeholder approaches view the structural inequalities between stakeholders as a technical matter, so that the principal challenge becomes ensuring that correct procedures are formulated for bringing the parties into contact and giving "primary stakeholders" more chance of voicing their view of the world (Hildyard et al. 2001: 62). As part of the process, there may be some technical training implemented for some stakeholders to bring them "up to scratch"; yet underlying messy issues of unequal power relations are inevitably glossed over.

One of the main theoretical objectives of stakeholder engagement and other iterations of participative democracy is arriving at a group consensus. The conventional belief is of stakeholders meeting, talking, and (eventually) agreeing. Kapoor believes that simplifying the process of consensus building in such a way is often "little more than a fantasy, and to the extent that it is used to seek definitive decisions, thereby avoiding the risks and messiness inherent in participation, it is the product of self-delusion" (Kapoor 2005: 1211).[4] He warns against what he calls the "fetishisation of consensus", that is, the desire to reach a single agreement at any cost, believing that the tendency of consensus-making in this manner is inevitably geared towards closure and hence towards the privileging of some voices and the simplification, suppression, and exclusion of others. Far from being inclusive and bottom-up, Kapoor suggests that many conventional participatory processes actually function to reconfigure power and value systems in

a way that may end up being exclusionary. He believes that participative democracy thus appears to be pulled in two directions at once: one is promoted as benevolent while the other professes neutrality in order to "empower the other". Its empowerment dimension gives it an "almost sublime character, so that it has come to be associated with a series of seemingly incontestable maxims: that participative democracy is naturally progressive; that community participation is inherently good; that championing participative democracy is blameless and honourable" (Kapoor 2005: 1206).

The manner in which Kapoor describes how power relations can be overlooked in participatory forums is similar at times to the way in which some—although definitely not all—oil palm smallholders engage and participate at annual RSPO meetings held in the ballrooms of five-star hotels across Southeast Asia. The RSPO membership encourages meaningful smallholder participation and makes concerted efforts to allow space for inclusion. This is seen in particular in the side meetings, where smallholders are able to take the opportunity to voice their concerns and opinions and outline some of the specific challenges they face.

Nevertheless, structural power realities in such a multi-stakeholder environment remain omnipresent in engagement. Although the convenor in a participatory exercise may portray himself as a neutral arbiter, he manages the proceedings at almost every step: deciding on the purpose of the meeting, who can attend, and who can speak on what topics and for how long, and thus shaping the outcomes of the meeting. Power is tilted decidedly in favour of the convenor, and while it can be used accountably, it can just as easily be abused (Kapoor 2005: 1207, Mohan and Stokke 2000: 266, Mohan 2001: 266). Focusing on what Mohan calls the "local as opposed to the wider structures of injustice and oppression" (2001: 153) means that the processes of participatory development are very quickly confined to a technical method of project rollout, as opposed to a deeper analysis of the reasons for inequity and the political methodology of empowerment (Hickey and Mohan 2005: 244).

Power has always been at the centre of the participation paradigm. There are always questions about who is involved, what is the process whereby they are involved, and on whose terms such involvement has been created (White 1996: 14; Brett 2003: 20). A post-structuralist approach to power highlights the multiple ways power is enacted, often

simultaneously and in contradictory ways (Cahill 2008: 298). Power thus does not simply involve processes of domination and resistance, but can also encompass seduction, persuasion, manipulation, coercion, authority, and cooption (Allen 2003: 298). Such human actions and responses are commonplace in the political economy of a district oil palm plantation: they are neither Indonesia-specific nor culturally specific. Indeed, even though they are not often explicitly addressed, the realities of political economy and political processes imbue all aspects of land use change anywhere across the globe. This is, of course, unsurprising given the centrality of political processes in district land and resource management. Community and smallholder participation in Indonesian oil palm is no exception. Given that plantation expansion involves issues directly related to development, economics, land, and culture, political processes and how power manifests locally are intrinsic to how plantations and smallholders participate.

When assessing power among people and groups, Lukes writes about the need to focus on those aspects that are not always directly observable such as how the powerful are often able to secure compliance by having power more as a stored capacity as opposed to a blatant use of such capacity (Lukes 1974, 2005b). The "third dimension" of power he describes is the sort of power that can be used to prevent the formation of grievances by shaping perceptions, cognitions, and preferences in such a way as to ensure the acceptance of a certain role in the existing order. Such a view allows for the consideration of the many ways in which issues are kept out of politics, whether through an individual's decisions or through the operation of social forces and institutional practices. The use of power in this way is not obviously measurable, largely because the use of this third dimensional power is not always explicit. For example, the use of a particular ideology or approach that organically becomes the assumed orthodoxy and the generally accepted policy is a third dimension of power.

An apt example of this dimension is the conventional orthodoxy relating to improving rural development in Indonesia via the development of plantations. At many levels of government, plantations are considered as "the way" to increase rural development, which in turn creates particular legislative instruments that affect the way in which plantations and smallholders engage (Gillespie 2011). Lukes also suggests that power is equally about the ability to make or to receive any change, or to resist it (2005b: 478). Lukes thus explains how there is

an important form of power that includes the ability to dismiss particular activities as unnecessary. Such an option manifests in the way some plantations are able to choose not to act or to dismiss smallholder complaints. An example of this is from one smallholder in West Kalimantan:

> So many times we have said to the plantation, don't leave us alone here, we are ready to work, give us guidance on how to look after the trees. We have said this so often across a table that there is just no point in meeting again. I have all the original documents, all the instructions, and all the promises that the plantation made during awareness-raising. But hardly any of it has been realised. (Discussion with West Kalimantan smallholder, 2009.)

The power to choose not to act is a fundamental indicator of a power imbalance. As Lukes explains, "if I can achieve the appropriate outcomes without having to act because of the attitudes of others towards me or because of a favourable alignment of social relations and forces facilitating such outcomes, then my power is surely all the greater" (2005b: 479).

INTERPRETATIONS OF PARTICIPATION IN AN INDONESIAN OIL PALM PLANTATION

Recall the basic plantation stakeholder map in Figure 9.1. A more developed stakeholder map, based on a particular plantation in West Kalimantan in 2009, is provided in Figure 9.3, encompassing a much wider variety of groups and interactions. It is necessarily messy because it reflects the reality on the ground; it does not fit neatly into the current participation and stakeholder discourse. It is, of course, an individual snapshot in time—it neither necessarily represents other plantations, nor the changing circumstances of the unnamed plantation in question.

While such a stakeholder map provides insight into the interplay of many groups in a plantation, it too fails to take into account the multiple roles of stakeholder groups and the fluid nature of membership within particular stakeholder groups (Gillespie 2007). In the oil palm context, a smallholder may be simultaneously a plantation employee, a smallholder, and a local politician, with each role at times opposed to the other. To which stakeholder group does an individual

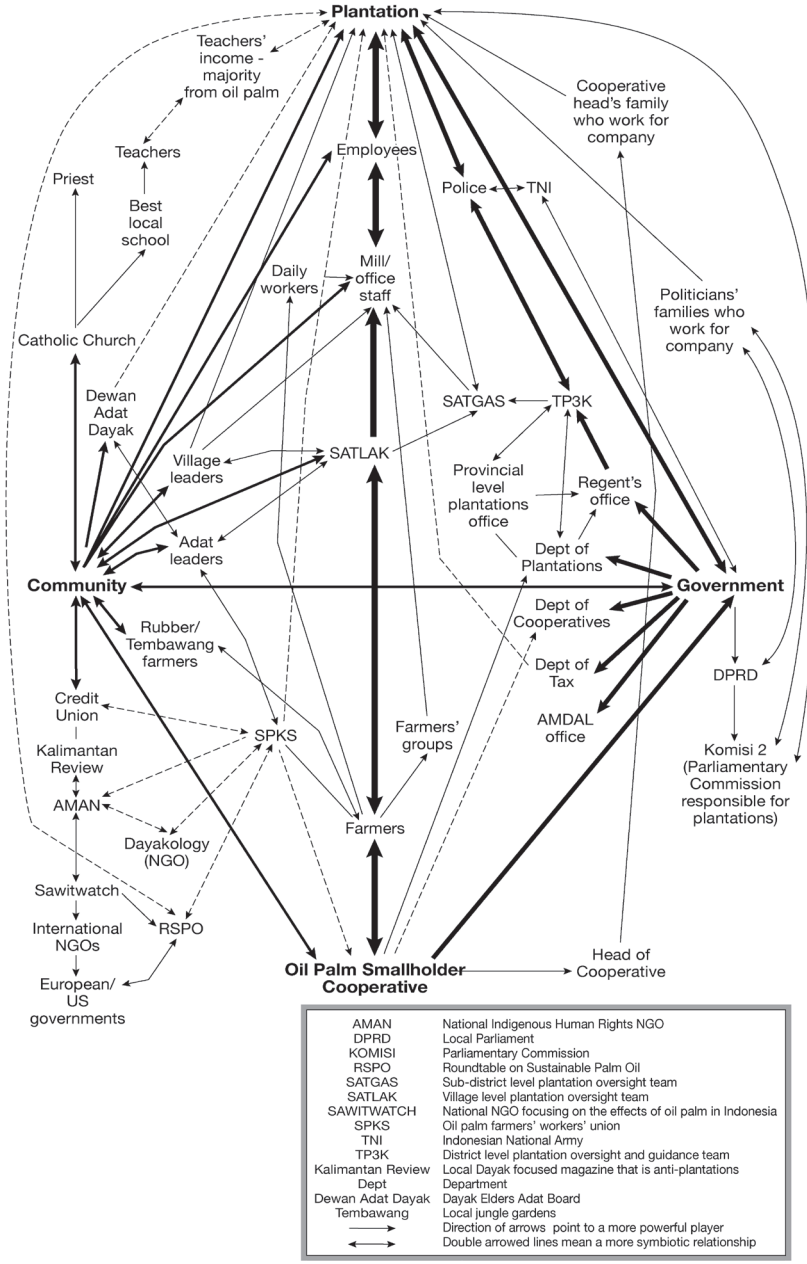

Figure 9.3. Stakeholder map of one Indonesian RSPO member plantation in 2009

belong? Another weakness of such a static stakeholder mapping approach is the inability to methodically outline and explain who is and who is not a legitimate stakeholder (Mitchell et al. 1997). Finally, by virtue of it being so focused on process and results, stakeholder engagement often disengages from the critical issue of the complexities of power relations both *within* the individual groups and *between* individual stakeholders. Clearly, having a voice means more than getting a seat at the table. In such a complex environment, participation *per se* is no panacea. The tendency to treat participation as a technical "ticked box" rather than a political methodology of empowerment is apparent and often results in the avoidance of any real analysis of structure and agency at the plantation level. Consequently, the process obscures what makes participation difficult for marginal groups (Cornwall 2007, Kesby 2005).

The diversity of opinions and comments from some of the key players depicted in this plantation stakeholder map provides a useful way to demonstrate how different stakeholders have startlingly different philosophies and opinions with respect to the impact of oil palm on communities and their relative positioning in that arena. In some respects, the plantation company is often the clearest stakeholder in terms of its goals—"We come with money, and we want to leave with money" (discussion with plantation director, West Kalimantan, 2009). Another estate manager was also clear about the subordinate nature of the community in its relationship with a plantation. He described the relationship as being akin to a "kite being controlled at the end of a piece of string." Such a description resonates with Hildyard's critique of participation in that it can be used in a variety of controlling and cynical ways, whereby smallholders and communities engage, but only within the strictly controlled boundaries that the plantation sets (Hildyard et al. 2001). The estate manager explained,

> As a company, we have to let the community work like a kite, we need to let them fly for a bit, and then just pull them back every now and again, that is our role. We can't pull too hard here or the kite will fall, we have to push and pull just a little bit to let them work within our boundaries. (Discussion with estate manager, West Kalimantan, August 2008.)

At the micro-level, a common plantation strategy involves dragging out smallholder's complaints. The plantation's decision not to act on a

grievance, for example, concerning poor maintenance of a road intersection, is often interpreted by smallholders as the company plantation demonstrating that "although you believe your issue is important, we choose to not address it." One Kalimantan estate manager explained the two strategies used,

> One, we use time strategically: Who can hold on the longest? If we know that we are fighting a conflict against someone only interested in money, then we will not pay for a very long time, if at all. Two, we get our workers to defend the plantation. So we fight them with their own, and use people who are pro-plantation to stop those who are against us. (Discussion with estate manager, July 2008.)

Such a strategy mirrors Luke's third dimension of power, that "if I can achieve the appropriate outcomes without having to act because of the attitudes of others towards me or because of a favourable alignment of social relations and forces facilitating such outcomes, then my power is surely all the greater" (Lukes 2005b: 479).

Discussions with district government officials demonstrate how they too are often in a difficult bargaining position with the plantation company. In a decentralized era, most plantation companies have sensibly nurtured their relationships with the various levels of the district government. District governments are enthusiastically pro-oil palm and often compete energetically with other districts within the one province to entice plantation investment locally. Yet they are in a difficult bargaining position with plantations, as one district economic policy advisor in a frontier area explained,

> We don't have anything to bargain with investors except land. We can't argue for infrastructure, an educated workforce, a steady supply of electricity, quick access to overseas market—we have none of these things. So the only thing we have currently is land to offer investors, and it is the only thing they are interested in (Gillespie 2011: 14).

The district government is also tasked to provide oversight to the plantation companies. This role is broadly left to the various relevant departments of the district government, each with their own levels of competence.[5] One district official responsible for plantations described how plantation oversight is largely dependent upon the attitudes of officials, a situation that demonstrates the enormous discretion held by local officials:

> Many things are not described in the regulations, and so it is up to the individual who sits at the sub-district leader's office. The procedures are never written down; it is just the understanding and application that are the important things. Because if we study in school, it is not possible that everything will be explained in the text book, right? We cannot possibly have a standard operating procedure here for all the problems we have…we have our conscience (*hati nuranyi*) here instead, which means we will solve the problems properly. (Discussion with West Kalimantan district plantations official, 2009).

Local oversight thus sometimes appears contingent as much on the conscience of the local (district and sub-district) officials and their relationship with the plantation company as it does on the regulatory environment. Such discretion given to the local officials inevitably creates a relationship between those officials tasked with oversight and the plantation company reminiscent of various forms of patrimonialism (McCarthy and Zen 2010).

Another group responsible for plantation oversight is the smallholder cooperative. Local government assistance to the cooperative is often limited, with interaction sometimes only extending to official attendance at the annual cooperative farmers' meeting. The hands-off approach of government is articulated in the following explanation from a sub-district government official:

> We can't get too involved here; it is not our job or our right, it is very clear what our limitations are legally. The cooperative is the company partner, so it must be able to negotiate. Having said that, I acknowledge that the capacity of most cooperatives to do this is not there yet. (Discussion with sub-district official, West Kalimantan, 2009.)

The oil palm farmer cooperatives are therefore often responsible for negotiating directly with the plantation. In this way, smallholder outcomes appear contingent on the capacity of cooperative leaders. One district-level director of the Ministry of Cooperatives concurred with this assessment and explained the frustration he felt when viewing the rapid turnover of cooperative leaders and how this further hindered the oversight and participation process

> The cooperative people who come to the monthly smallholder income meetings are often changed, and they often don't know the

> system and so don't play a proper role. For example, because of democratisation, the cooperative head is often changed every three years, which is a waste of experience and knowledge. The new cooperative head has to start all over again and is easy to manipulate. What happens is what you see…every smallholder income meeting, we ask the company to assist the cooperative to attend and play a role…every month we say the same things, and nothing changes. (Discussion with official, Department of Industry, Trade and Cooperatives, West Kalimantan, 2009.)

For most plantations, functional community oversight by the cooperative is therefore an obvious weakness of the participatory process. A lack of independence of many of the cooperatives means that conflicts of interest also often occur, accentuated when particular cooperatives are lacking in legal and financial power compared to the plantations. Power in this context is not necessarily explicit or coercive but is more akin to the multi-dimensional power evoked by Foucault (1979). One government official working with cooperatives in Kalimantan explained,

> More often than not, the cooperative is just a tool for the company. It is not even that they get a look at the mill expenses for smallholders, they are not in general even interested in doing so. They are not brave enough to go the mill and find out for themselves what is a legitimate smallholder cost. Or they are not motivated to do so, because they have no need to do so. Even if they have an accounting background, they still don't get close enough to the mill or the office to even check the data correctly. You've got to remember, the plantation has the expertise, the staff, the knowledge, the power, the capital, the formulas, the relationship with the Regent's office, and the legal strength. (Discussion with district government official, West Kalimantan, 2009.)

Despite other examples of strong representation and strong bargaining positions by some cooperatives and smallholders, smallholders in Indonesia thus generally experience a series of challenges related to participation. With the advent of newer plantation schemes, the plantation company is overwhelmingly in control of the majority of the plantation land, which in turn reduces the dependence of the mill on smallholder fruit (Gillespie 2011). In commenting on such a situation, one smallholder explained, "we feel half frustrated to death, but we

have no real options in front of us. If we just continue with the way things are, then nothing, absolutely nothing, changes. But if we undertake any form of opposition, we end up in chains." (Discussion with smallholder, West Kalimantan, 2009).

The power imbalance between the plantation and smallholders is shown most poignantly in the following smallholder recollection. What is most surprising in the story is the smallholder's desperation in asking for help to obtain work, once again with the very plantation that sent him to prison two years previously as a result of a demonstration.

> I would like to ask for your help in asking [company name] to reinstate me in a job as was promised to me many months ago. I have just got out of jail after joining the demonstration (*demo*). The thing is that we tried to get answers to all our concerns again and again by writing letters, having meetings, and so on, and all we got as answers were soon, soon, soon. It is little wonder the *demo* occurred…After the *demo* I was arrested. When I was taken in, my back was damaged and my head was smashed four times into the side of the police car. I also had the butt of a rifle repeatedly pushed into my kidneys. My back is very painful to this day, which means I can't work on my own oil palm plot. When we got to the police headquarters, I was interrogated for the whole night, with the policeman thrusting a knife right up into my face repeatedly. My face was smashed, I lost some teeth and my lips were all cut up. I was eventually sentenced to 16 months in jail. The thing is that the police were not at all interested in looking at why the *demo* happened, they were only interested in defending the rights of the plantation. (Discussion with West Kalimantan smallholder, 2009).

CONCLUSION

This chapter has examined some of the key stakeholders in an Indonesian oil palm plantation—company, government, cooperative and community—to provide insight into some of the more common participatory processes and power structures. While not necessarily applicable to other plantations, the detailed stakeholder map in Figure 9.2 represents how relationships and power among stakeholders in a plantation are underpinned by a series of strategic relationships cultivated, often by multiple parties, so that particular groups disproportionately benefit from particular arrangements. It also demonstrates the multi-

faceted power and control that a plantation company is able to employ as a result of a politico-legal nexus that exists in frontier Indonesia where local officials support a plantation (Gillespie 2011). Such a process is similar to Etzioni's description of utilitarian power, whereby a plantation is able to supply material or financial resources to particular stakeholders, ostensibly as part of operating procedures. For example, a local police chief may be on a monthly retainer to assist in keeping plantation peace and security (discussion with estate manager, March 2009). Or a cooperative head's son may be working in the mill, thereby negating the independence of the cooperative itself. Such arrangements are often distributed to key stakeholders by plantations: recall here one of Allen's conceptualisations of power—that power mobilized through socially constituted relationships can operate through networks of social interaction (Allen 2003: 5).

The chapter has discussed how such a power imbalance is created. From the plantation's inception, community members are often disempowered through a lack of knowledge, and are unable to fully comprehend the wholesale changes that will occur in the future at a landscape and social level. Whether this is due to a rudimentary awareness-raising program, an overriding impatience on the part of local communities to become oil palm farmers, a deception practised by the company in conjunction with local government officials about future plantation benefits, or a lack of community education, it suggests that despite often diverse community and smallholder outcomes, particular dynamics are regularly at play that mean that smallholder farmers often struggle to understand plantation information and processes at the initial stages (Chapter 8). This creates the foundation upon which the plantation-community relationship is built, which then coalesces into a long-term relationship where the economic outcomes between local farmers and plantation companies remain largely in favour of plantation owners.

Despite this trajectory, outcomes remain varied, even at an individual plantation level, so the need to recognise smallholder agency remains. Failure to do so prevents a nuanced analysis of power and participation in the upstream oil palm sector. Smallholders are neither passive nor stupid; they are able to manipulate circumstances within the plantation through such practices as absenteeism from plantation work, stealing of fruit or company property, mixing immature fruit with mature fruit to be sold, mixing dirt and water with fruit to add

weight at the mill gate, making inflated claims of land ownership, and on-selling subsidised fertiliser (if it gets to the smallholder) intended for the oil palm crop.

In modern Indonesian oil palm plantations, the power of the plantation over smallholders is neither blunt nor coercive, and is rarely violent. Violence is, however, often the inevitable by-product of the failure to manage community and smallholder expectations that were often wrongfully inflated by various stakeholders at the beginning of the awareness-raising process—including the district government, local plantation officials, companies, investment bodies, and contractors. Plantation companies are often able to markedly reduce the options of local communities to a "join/not join" dichotomy at the beginning of the arrangement, with most of the critical decisions relating to land division, credit repayments, smallholder income, and land status already made beforehand by other people often far removed from the actual plantation site. Smallholder participation in plantations thus goes through a number of participative types, although they are rarely fundamentally empowering in nature. Awareness-raising is often nominal and passive with communities, who are informed of critical decisions ex parte, and the procedures of awareness-raising mean that it is extremely difficult for the local community to comprehend fully the changes that will occur. Interaction is thus often similar to Michener's (1998) "weak participation" type, where participation is informing at best with little ceding of control.

Across parts of Indonesia this situation continues, even among many smallholders who have done well out of oil palm. There remain many smallholders ambivalent or opposed to the plantation to which they are linked, not because they have not done well financially from cultivating the crop (they have), but because of the feeling of powerlessness—of being on the lower rungs of a structure that provides slim prospects of marked improvement. The final comments from one smallholder, reflecting on his village's involvement with oil palm over the years, illustrate the long-term nature of the problem of smallholder participation in plantation development,

> I am really confused about our area; it is almost as if we have been left behind and forgotten because we were one of the most outspoken areas. But it can't be that because this has been going on for years, before we even began complaining…(Discussion with West Kalimantan smallholder, 2009).

NOTES

1. An earlier version of this chapter was published as Piers Gillespie, Participation and power in Indonesian oil palm plantations, *Asia Pacific Viewpoint* 53 (3): 254–71. It is reproduced here with permission.
2. A feature of modern Indonesian oil palm plantations is the myriad of arrangements that exist between plantations and local communities. These *pola*, or schemes, can range from the earlier nucleus estate and smallholder (NES) schemes, to joint ventures or partnerships, to shareholdings and payment arrangements that see smallholder farmers no longer involved in the direct cultivation of their own crop. These diverse arrangements, coupled with the corporate governance standards of individual plantations, are influential in determining future outcomes for communities (Gillespie, 2012). *See* Chapters 3, 4 and 5.
3. The variety of jobs at a plantation includes spraying, pruning, maintenance, lifters, security, daily workers, monthly contract workers, cleaning, spraying and weeding, and other physical jobs.
4. In the same way, Mouffe (2000) speaks of consensus as the "elimination of pluralism from the public sphere".
5. For a detailed analysis of the law and processes relating to oversight, *see* Paoli et al. (2012).

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CHAPTER 10

Opposition to Oil Palm Plantations in Kalimantan: Divergent Strategies, Convergent Outcomes

Greg Acciaioli and Oetami Dewi

"Palm Oil Fever"—that was the diagnosis provided for the state of Indonesian economic aspirations in an article published in the Indonesian news weekly *Tempo* (Dewanto and Usman 2004: 118):

> At this point the palm oil industry is bubbling over, full of passion. The growth of demand for crude palm oil (CPO) in the international market is around 2.2 million tons per year, with a price of USD 450–500 per ton (Rp. 4,050,000–4,500,000). This condition has rendered [our] society smitten with "palm oil fever" (*demam sawit*). "People are racing each other to plant oil palms," so says Subagyono, Director General of the Section for Development of Plantation Production, Department of Agriculture…

The state of uncontainable desire depicted in such erotically redolent terms was attributed in this article to the society (*masyarakat*) as a whole. Yet, the specific examples that the authors used to exemplify this social aspiration all concerned large-scale corporations rather than the toiling masses that the term *masyarakat* is intended to evoke. The extent of PT Astra Agro Lestari's holdings, stretching from Riau

across Central Kalimantan to South Sulawesi, forces its executives to be ever scurrying across the archipelago on their inspection trips; yet, it still plans to devote IDR 2.2 trillion to opening up a further 140,000 ha. The scale of corporate expansion is staggering (Figure 10.1). But there is no mention in the article of its impact upon the members of society on whose land this expansion is taking place. They do not appear to merit inclusion in the ambit of the "society" whose members have caught "palm oil fever".

Despite government pronouncements that oil palm plantations are meant to increase public prosperity, farmer experiences after their introduction have not validated such claims. As a result, farmers have engaged in various forms of resistance (Scott 1985) as a way of asserting their own claims to the land and other natural resources they feel the oil palm plantation companies, whether national or private, have appropriated. However, the ways in which resistance has been exercised by individuals and groups have varied across different contexts. In part, these can be traced to, first, the different contexts of introduction and, second, the contrasting forms of participation in the

Figure 10.1. Large-scale expansion of plantations has been a feature of the oil palm frontier in Malaysian and Indonesian Borneo (Jaggat Rashidi/ Shutterstock)

plantation schemes that are allowed for local farmers. Despite such variation, certain concerns do emerge as shared across these contexts. While sometimes questioning the legitimacy of plantation occupation of their land, especially when they feel that compensation has been unjust, villagers in both cases considered here seek not to eliminate the presence of the plantations, but rather demand a more just participation in its processes and more equitable sharing of its profits.

This paper uses two case studies—the "plasma" peasants of PIR-Bun V Ngabang in Landak district (*kabupaten*), West Kalimantan, and the villagers of the Lake Sembuluh sub-district in Seruyan district, Central Kalimantan—in order to examine how modes of resistance relate to forms of identity and uses of indigeneity and organisational mobilisation. Three key questions emerge. First, why does the use of *adat* as the idiom for conceptualizing rights, demanding compensation, and punishing infringements fail? Second, why are NGO strategies proving unsuccessful? Third, what conclusions can we make regarding the dilemma faced by resisting communities, and where does this leave the notion of community identity?

OIL PALM DEVELOPMENT IN TWO CONTRASTING AREAS

The two case study areas share certain characteristics. Most notably, both are embedded in relatively recently formed districts, products of the rage for proliferation of new administrative units or *pemekaran* ("blossoming") initiated by the implementation of regional autonomy in 2001 (Erb et al. 2005). However, there are distinct differences in the ways that local villagers have been affected by the incursion of oil palm plantations and in the ways they have reacted. We attempt in this chapter to link some of the differences in their reactions, especially the forms of resistance in which they have engaged, to such factors as the timing of the introduction of oil palm cultivation, the different forms of tenure in which it has been embedded, and the degree of access of farmers have to instruments of production. These factors are particularly important in assessing how these local communities have positioned themselves in regard to making claims on the basis of local customary frameworks (*adat*), with consequent differences in the ways these claims have inflected their efforts at identity construction and reconstruction.

In the first case, the Kanayatn Dayak plasma peasants of Ngabang in West Kalimantan, who claim the status of the region's "indigenous people" (*masyarakat adat*), justified their acts of resistance and pressed for sanctions against the oil palm estate in their midst by invoking the idiom of local Dayak *adat*. In contrast, the largely Banjarese villagers, self-styled agents of modernity, in the villages Sembuluh I and Sembuluh II in Central Kalimantan have sought to dissociate themselves from local forms of *adat* and instead formed modern organisations to advance their claims, although ambivalently viewing the *adat* of surrounding Dayak inhabitants with some longing for its clearer delineation of the grounds for land rights. In both cases, the resistance of villagers to the imposition of oil palm plantations in their midst has been largely ineffectual in inducing major changes of policy that would improve their situation, but the grounds for their failures stem not only from divergent relations to indigeneity, but also from a shared inability to participate in the system of oil palm production on the terms they desire.

In West Kalimantan, the story begins with the introduction of oil palm into this area shortly after a request from the governor in 1974. At this time, the parastatal company, Perusahaan Negara Perkebunan (PNP) VII, opened up the first oil palm plantation in West Kalimantan, establishing 14,000 ha in Ngabang sub-district in what was then Pontianak district. Thus, West Kalimantan had proceeded with the PIR-Bun (*Perkebunan Inti Rakyat* or Nucleus Estate and Smallholder) model pioneered earlier in Sumatra, relying on national companies as the provider of the capital for oil palm plantation development (Chapter 3). In all these instances, a nucleus estate was established as the core, with smallholdings of 2 ha provided for local farmers who had given up their land (often much more than 2 ha in extent) or had their land surrendered for them by local (*adat*) authorities in order to participate in the scheme. What differed across these first schemes in the province was the source of the participating smallholders. The initial PIR-Bun scheme, which drew on a pool of local Dayak swidden farmers for its supply of plasma smallholders, was complemented by other schemes of similar structure that, however, depended on transmigrants from Java and elsewhere to fill the slots of smallholders (Brookfield et al. 1995: 89ff.; Dewi n.d.: 140, n. 30).

In contrast, oil palm plantations came much later to the Lake Sembuluh sub-district in Central Kalimantan, and in a very different

form. As late as the end of the 1980s, timber was still regarded by some economists as the mainstay of the economy of Central Kalimantan (Mubyarto and Baswir 1989). It was only in the 1990s that the government of Central Kalimantan oversaw the shift away from almost exclusive orientation upon the timber sector to an increasing (projected) reliance for generating income on the plantation sector, particularly the palm oil subsector (Casson 2001: xiii). A rapid expansion of the palm oil subsector occurred in the four years preceding the onset of the Southeast Asian region's economic crisis in 1997, with the area devoted to oil palm estates multiplying almost fivefold after their first introduction in Kotawaringin Barat and Kotawaringin Timur districts.

Almost all this expansion was in the form of large-scale private plantations, the type of development fostered by the structural adjustment programs imposed on Indonesia in the 1990s in line with International Monetary Fund and World Bank policies. Most of these plantations were established by large conglomerates with various individual companies opening separate plantations (e.g., Astra Agro Lestari Group, Sinar Mas Group, Asam Jawa Goup, Salim Group, and Graha Group); no government oil palm estates were established in the province in this period (Casson 2001: 6). According to data from the district-level Department of Forestry and Plantations in 2004, 29 enterprises had sought permission to open up oil palm plantations in the region now covered by the new district of Seruyan, the separation of which from Kotawaringin Timur had been initiated in 2000. Within this new district, the land surrounding Lake Sembuluh has been the crucial area for the expansion of oil palm plantations (Casson 2001: 6).

COMMUNITY RESPONSES: EVERYDAY RESISTANCE IN NGABANG

Developing Forms of Resistance

In the functioning PIR schemes in Ngabang, West Kalimantan, opposition of plasma peasants has largely taken the form of what analysts label "everyday resistance" (Scott 1985). Rather than well organized, overt forms of collective revolt, as best evidenced in recent years by the Zapatista uprising in the mid-1990s in Mexico (Dewi n.d.: 329ff.),

peasants in Ngabang have engaged largely in covert actions involving only individuals or small groups, often under the cover of darkness. These have included such acts as stealing fruit from within the nucleus estate, often in groups of dozens of people, sometimes even hundreds, fleeing at the arrival of local security (*satpam*) or the local detachments of riot police (Brimob) receiving company funds. Females harvesting within the nucleus estate often knock some of the ripe fruits off the stem, and then once the fruits-on-the stem (*tandan buah segar* or TBS) have been taken away in the government company truck, they collect these individual fruits off the ground. Such subterfuge can yield between 10 and 20 kg of fruit that can then be sold to clandestine purchasers (*penadah*), who either bring them to other factories or sell them to other plasma plot holders, who then pass them off as products of their own plots. More intrepid acts of resistance, which would approach the status of vandalism and even sabotage in Scott's typology of everyday resistance, include the burning of oil palm trees in the nucleus estate and the planting of rubber trees within estate boundaries. Even more daring, and no longer able to be encompassed within the label of covert resistance, was the case of the inhabitants of the subvillage (*dusun*) Ampar Saga in Desa Amboyo Inti erecting a complex of houses, a store, a wood warehouse, a garage, and a church near an intersection of the main road connecting Pontianak and Kuching, an area used for seedlings by the company, which considered it as within the land granted to them by their lease (*hak guna usaha*, HGU).

Initially, these acts of vandalism and sabotage had not loomed large in relations with the plantation company. Certainly, local farmers had experienced resentment over the very terms of the transfer of land to the company. In three of the *binua* (traditional clusters of settlements under a single set of *adat* officials) within Ngabang, local *timanggung* or *adat* leaders had turned over the lands of their constituents in a single transaction presided over by the governor, while in other contexts, farmers participated individually. Many farmers who had opened up 7 ha or more in swidden plots and garden land, some of it planted in fruit trees and other perennials, lost all these holdings in one fell swoop, receiving in return only 2 ha for their plasma plot and 0.75 ha for their food needs and houseyard. To add insult to injury, those plots were often far from where they lived and had worked, as the new plots were distributed by lottery with little or no account taken of the location of farmer residences. In fact, some

farmers received nothing in this lottery, simply losing with no compensation for what they felt was "the land of their ancestors" (*tanah nenek moyang*). Those who did receive developed plasma plots had to pay for them, with principal and interest being deducted from their receipts for the fruits they brought in for processing. Interviewees regarded this appropriation as unjust, wondering why their original grant of land in the absence of any sort of immediate compensation (*ganti rugi*) did not entitle them to shares in the estate or some other form of entitlement to a proportion of the plantation profits. Why should they be burdened by debt for participation in a program in which they had given up their land to the company without any compensation? Certainly, such resentment served as a motivation for the sporadic stealing of oil palm fruits from the nucleus estate and other acts of covert resistance, given the local villagers' sense of entitlement to the land they had lost.

However, such depredations only became more frequent and larger scale once plasma peasants had experienced a drastic downturn in their incomes due to a number of factors for which they held the company responsible for. One of the first of these experiences coincided with the transition of the company from PTP VII to PTPN XIII as part of the process of amalgamation and rationalisation in 1996. At that point, the supply of fertiliser to the plasma farmers, for which the company had the monopoly, was stopped on the grounds that the farmers were in arrears for past supplies of fertiliser provided on credit. Farmers objected strongly to this move, arguing that they had been paying for the fertiliser, only to receive the company response that, although they had indeed paid the principal of IDR 6 million, they were still in debt for IDR 3 million in interest.

This was a time of declining productivity of their oil palms, since by the end of the 1990s, many of the trees planted in the early 1980s were coming up for renewal. Although the company had been regularly deducting costs for rejuvenation (*peremajaan*) of the trees in the plasma plots from the amount paid for crops, the PTPN XIII management claimed at that point that the total of this deduction only amounted to IDR 7 million, whereas the renewal costs at contemporary prices would amount to IDR 30 million. Once again, these costs were to be passed on to the plasma peasants rather than borne by the company, with even higher amounts to be deducted from the sale price to pay for the excess in rejuvenation costs, plus interest!

The plasma peasants were also increasingly concerned about the prices they were getting from the company for the fruits they harvested. These prices were set in monthly meetings of the heads of companies operating in the province, held under the auspices of the provincial branch of Dinas Perkebunan with no input from the farmers whose products were being priced (Dewi n.d.: 162).[1] Farmers were thus excluded from all the deliberations about the prices they were paid, as well as costs such as renewing the palms and deduction for the transport of fruit, over which the company also claimed a monopoly.

These factors all led to an increased incidence and scale of acts of resistance as farmers felt their entitlements increasingly eroded. In the face of the declining productivity of their smallholder plots and the reduced price paid for their harvested fruits, stealing from the well-tended nucleus estate was seen as the only alternative. The company reacted in a letter to *adat* functionaries (*timanggung*), declaring that what had been sporadic stealing in 1997 had escalated to "plunder" in 2001. Increasingly, farmers would engage in other acts of resistance as well; for example, selling the fruits they harvested from their own plots to operators of trucks bringing them to other factories than the one to which they were legally bound. However, even under such conditions, these acts of resistance have failed to coalesce into more organised forms of opposition.

Compromised Role of Adat *in Resistance*

One of the major reasons for this lack of organized opposition is the relationship of the local Dayak communities to *adat*. *Adat* has been the idiom not only for conceptualising and demanding compensation for the company's failures to deliver on the promises of prosperity, but also for punishing persons who have acted on their own recourse to grab some of the benefits, which the local Dayaks have not shared. As noted above, much of the land occupied by PTP VII (later PTPN XIII) in the formation of PIR-Bun V Ngabang was surrendered en masse to the company by three *adat* leaders (*timanggung*) acting on behalf of their constituencies in their *adat* territories (*binua*) rather than through individual contracts with farmers. *Adat* has continued to function as the major idiom for transactions with the company. When two local teachers were brought to court by the company,

accused of stealing from the nucleus estate, they were acquitted due to a lack of witnesses, and the upshot was that the company had to pay an *adat* fine of IDR 1,084,000 for what was labelled as a lack of respect for local custom. Similar actions seen as the responsibility of the company (e.g., a Dayak plantation worker being insulted by the harsh words of a Batak foreman) have been the subject of analogous customary sanctions, with the company paying about IDR 10 million per year in total in such fines (Dewi n.d.: 191).

Actually, PTPN XIII is quite happy for such cases to be adjudicated on *adat* terms. In the first instance, such fines are a pittance compared to the IDR 1.8 billion annual budget for security that the company maintains—a small cost for the reassertion of local "harmony". Even more important, the continued use of an *adat* framework allows the company to frame what might be seen as the unjust appropriation of a surplus as simply a matter of difference in worldview. By punctiliously adhering to the frame of *adat*, plantation managers are able to continue depicting the plasma farmers as possessors of a premodern mentality, as irrational native tribesmen whom they feel the responsibility for to modernize through their efforts to embed them in a modern market economy, as Dove (1999) has noted for other plantation projects in West Kalimantan. The idiom of *adat* thus serves to mask the nature of the unequal economic relations and surplus appropriation characterizing the plantation sector by framing disputes in the realm of the cultural rather than the economic, emphasising the need for consensus for cultural harmony rather than for (class) mobilisation to redress economic injustices.

In addition, the very "governmentalisation" of *adat* offices in their current form serves to neutralize the possibility of formal opposition. Autonomous *adat* forms of governance were largely diffused and appropriated during the New Order era. The Village Governance Law No. 5 of 1979 effectively displaced *adat*-based bodies from the sphere of village-level government with its erection of a uniform structure of village governmental institutions for the entire archipelago on the model of the Javanese village (*desa*). However, *adat* institutions were not entirely eliminated; rather they were reformed in a hierarchy imposed by the government—*lembaga adat* at the *desa* level, *dewan adat* at the sub-district and district levels, *majelis adat* at the provincial level—becoming handmaidens of governmental policy in their role as advisors to the heads of the village, sub-district, district, and province.

Given that they are identified with and embedded in the very structures of the governmental apparatus that prop up the company estate structure, *adat* institutions can provide little foundation for organisations that might seek to oppose and restructure the relations of production imposed by these estates. In fact, *adat* officials often join government officials in countering the efforts of local NGOs to use *adat* as a model to oppose capitalist penetration and revitalise local societies on traditional grounds. Local villagers are certainly aware of these contradictions and occasionally give voice to their dissatisfaction with these governmentalised *adat* bodies. Nevertheless, *adat* has been the only frame with which they have been able to exact some compensation from the companies. Given that all the other organisations in which they participate—such as farmer groups (*kelompok tani*) and village cooperatives (KUD)—have also been formed by the government to facilitate integration into plantation schemes, they have little opportunity to build upon existing organisations, *adat*-based or otherwise, to effect more formal opposition to the plantation scheme.

There is another major reason that militates against the possibility of organized opposition on the part of the plasma farmers, especially on a radical basis. Of course, the fear of violent reprisal, even mass butchery, which they saw enacted on local individuals primarily of Chinese descent accused of being communists in the wake of the 1965 countercoup, remains a strong disincentive for acceptance of radical ideologies that emphasise their position as a subjugated class. However, even more tellingly, the plasma farmers basically do not reject either the presence of the oil palm plantations or the larger economic system of which they are a part of. Their acts of resistance are predicated on their desire to get a larger share of the profits rather than the overturning of a system (as argued more generally in Chapter 8). Their resentment is over the reduction of their profits by company actions such as passing on the export tax, raising the cost of tree renewal, and stopping the supply of fertilizer, not over any inherent injustice of the system as a whole.

This is made clear in the demands that the plasma peasants have made—through their *adat* officials, of course—that more local people (*putera daerah*, literally "sons of the locality") be accorded staff positions in the estate beyond the level of field labourer and security guard, especially in management positions at the level of foreman and above. What the plasma farmers object to is the disparity in achieved

prosperity between plantation staff and themselves, and not the management's achieving of riches through the plantation system per se; it is fine for Batak managers to get rich, as long as local Dayaks have the same opportunity (Dewi n.d., 203; cf. Dove 1999). They do not engage in organized opposition to the plantation system imposed upon them precisely because they do not seek to eliminate it, but rather, desire to be part of the controlling interests within the system as a whole. What they want is social mobility and the opportunity to move into the managing class, not the overturning of the class system in the interest of instituting or recovering some other mode of production.

COMMUNITY RESPONSES: ORGANIZED OPPOSITION IN SEMBULUH

Articulating Grievances

In Lake Sembuluh, the establishment of oil palm plantations—although much later and under a different policy model—has also occasioned widespread social conflict. Unlike the largely covert nature of most acts of resistance among the plasma peasants at PIR-Bun V Ngabang, Sembuluh villagers' actions have tended to be more brazenly overt, fitting better Scott's categories of "vandalism" and "sabotage" than "everyday resistance". Their measures began with demonstrations in Sampit in the early years when the concession was still within Kotawaringin Timur District; subsequently, they included the cutting of the 40-metre-long bridge linking Group I and Group II of the company fields and various seizures of company equipment, including tractors and a backhoe.

We can usefully distinguish six major grievances motivating such measures by the Sembuluh villagers. First, villagers have quite publicly claimed that much of the land opened up was still primary and secondary forest, including many of their own swidden fields and gardens. Company officials have maintained, in contrast, that they opened their plantation in "an area logged over and covered mainly with *lallang* [i.e., *alang-alang*, *Imperata cylindrica*] and *belukar* [scrub]". In support of their version, villagers claim to have photos of the tree stumps evident directly after the clearing to prove the continuing existence of forest before company clearing. In addition, they ask why such heavy equipment had to be used to clear mere grassland.

Second, local inhabitants have complained of the lack of alternative livelihoods that the presence of the oil palm plantations has caused, including in a publicly broadcast video prepared by an assisting NGO:

> In the past, among the members of our society, what they worked at was building ships of ironwood, but now that the large oil palm plantations have come in, that culture has been lost. Why has that happened? The basic materials that we needed from our own forest are now extinguished, hauled away by the large plantations. But since the operation of the enterprises here the community has not been able to work at these tasks, so our thoughts are forced to…and that too is a matter of force although we're aware of all that. After receiving as the value of our land what's really only enough to eat for a year, I feel that the village land has already been lost: in the last analysis our descendants are going to get nothing…(A villager of Sembuluh II speaking in the video "Growing Palm Oil and the Social Impact" (Novib Oxfam Netherlands and Sawit Watch 2004)).

Third, plantation development has changed access to resources. Hemmed in by the PT Agro Indomas plantation, villagers from Terawan on the northwestern shore of the lake now have access neither to the former nearby forest for local products they used domestically nor to what had been the potentially cultivable land (*lahan*) for opening up and working dry rice fields.

Fourth, there are grievances over compensation. Villagers from Bangkal, Terawan, Sembuluh I and Sembuluh II whose lands fall within the boundaries of the concession have vociferously pursued their claims with PT Agro Indomas and more recently arrived concession holders.

Fifth, since the opening of the palm oil processing mill in April 2001, which has increased the effluents that flow into local watercourses, villagers have complained of itching after bathing in the lake and of a loss of fish, especially in the dry season when the lake waters recede and the currents lessen.

Sixth, another set of grievances emerged at the end of 2004 when villagers seemed most incensed by the extension of land clearing to the very edge of the lake by PT Salonok Ladang Mas, despite the government regulation stipulating that plantations must maintain a buffer of 500 metres between the edge of their planting and the shore of

the lake. The gradual encirclement of the lake by oil palm plantations has rendered much of the local population uneasy, but, despite the voicing of their claims, what seems most salient is the continuing futility of their efforts to halt this expansion.

NGO Attempts to Organise

Opposition to the oil palm plantations has not sprung from the local populace alone; unlike the plasma farmers of Ngabang, the Sembuluh villagers have actively worked with various NGOs, most of them located in the provincial capital, Palangka Raya. However, the conspicuous lack of success of these organisations to date reveals some of the problems besetting the local populace, especially as compared to movements based on other grounds, including the assertion of the "sovereignty" (*kedaulatan*) of customary societies (*masyarakat adat*) in the nascent Indonesian indigenous peoples' movement (Acciaioli 2001, 2002).

One of the early efforts was a participatory mapping project carried out by villagers and NGO experts in GIS techniques allied to Yayasan Tahanjungan Tarung (YTT). One of the key aims of this mapping was to contest the claims of PT Agro Indomas and other companies that they were opening up only grassland and scrub. The participatory community map they produced revealed the diversity of the land types encompassed by the areas allocated as plantation concessions. These concessions had been established upon not only scrub (*belukar*) land, as claimed by the enterprises, but also remaining patches of forest, swamp, and garden land of local inhabitants. This action was certainly important in bolstering claims for compensation and in some cases, where continuing garden use had been demonstrated, to heightening claims beyond the IDR 425,000/ha that had been determined as the standard compensation rate by the district government.

However, this NGO-assisted exercise raised expectations without being able to fulfil them. The mapping exercise had the unfortunate effect of convincing some villagers that the result would be a continuing entitlement to the land that the mapping indicated they had worked, as if this exercise were equivalent to the surveying carried out by the National Land Agency (Badan Pertanahan Negara, BPN) as

part of its land registration procedures, despite the lack of any such claim by YTT itself. When this turned out not to be the case, the ensuing estrangement resulted in YTT's withdrawal from the area.

As a result, much of the responsibility for monitoring and facilitating opposition to the oil palm expansion has been handed over to WALHI (*Wahana Lingkungan Hidup Indonesia*, the Indonesian Forum for the Environment) Kalteng (Figure 10.2). WALHI Kalteng, with its extensive network of affiliated NGOs under the WALHI Central umbrella, has used various means to publicise the Sembuluh cause, including newsletter articles, posters, research sponsorship, etc. It has worked extensively with the national NGO, Sawit Watch, co-facilitated research by international NGO researchers and activists from such organisations as the British-based Down to Earth (*see* various articles on the DTE website) and such Dutch NGOs as Novib Oxfam Netherlands and Milieudefensie (*see* Bruin 2004 and the 2004 film "Growing Palm Oil and the Social Impact"). One of its major activities working with the local community has been facilitating the establishment of people's organisations (*organisasi rakyat*) to mobilize

Figure 10.2. WALHI activists in Palangkaraya, Central Kalimantan (Photo: Aryo Nugroho).

people (or at least those opposed to the plantations) in defense of their local resources.

However, such modern organisations have not managed to attain any greater success in having their claims recognized than the use of the *adat* framework in Ngabang. Exploring why this is so requires assessing these organisations, in terms of not only their range of activities, but also the underlying values on which they have been based.

Perhaps the most notable of the organisations erected in this context has been KOMPAK Sembuluh, founded at the beginning of 2003.[2] KOMPAK Sembuluh has all the trappings of a modern, rational organisation with its management structure and its corporate idiom of vision and mission. It espouses the values of a contemporary democratic society, declaring it is committed to organisational transparency and oriented to conservationist values. It is certainly quite different in its orientation from revitalised traditional customary (*adat*) institutions found elsewhere, which claimed to have guided a harmonious accommodation with the environment (*see* below).

Following a less confrontational line than its complementary youth organisation, *Serikat Pemuda Peduli Daerah* (SPPD) formed shortly thereafter,[3] KOMPAK Sembuluh has concentrated on letter writing campaigns incorporating politely phrased requests, as well as more stridently asserted demands.[4] One letter addressed to the new district-level agriculture office requested funds for the building of an agricultural extension facility and the staffing of that centre with an agricultural extension officer, whose expertise could be used to develop an area of nearby swampland into wet-rice fields. Such a strategy exemplified WALHI Kalteng's priority of seeking alternative forms of agricultural livelihood for the community that could demonstrate effective use of surrounding land, thus hopefully sequestering it from being granted as yet another concession for oil palm plantation development. This request also accorded with Sawit Watch's strategy of seeking livelihoods for community members that could result in products, including various foodstuffs, to be sold to the plantation labour force. Of course, such a strategy constitutes an admission that oil palm plantations are not going to go away, and NGOs should thus operate to facilitate local farmers' best possible adaptation to this circumstance.

In a somewhat more confrontational vein, a letter addressed by KOMPAK Sembuluh to the management of PT Kerry Sawit Indonesia (PT KSI), one of the more recent oil palm enterprises to begin

clearing land in the area, contained a more direct statement of demands that not only captured the philosophy underlying the organisation's formation, but also revealed some of the contradictions that have hampered its efficacy.[5] The initial passages of this letter constituted a recapitulation of the organisation's basic values regarding justice and democracy and the demand for resolution of all land compensation cases. The letter then summarized the most salient grievances of community members, reiterated often in daily conversations among villagers. Other demands revealed even more clearly the influence of WALHI Kalteng, particularly the phrasing of those statements that related directly to conservation, such as the emphasis on preserving of the functions of the environment useful for local people's prosperity.

However, the phrasing of certain demands also indicates how KOMPAK Sembuluh is attempting to bolster its claims by reference to a novel set of criteria that relate, however ambivalently, to the question of *adat* so evident in the West Kalimantan case. The discourse of resistance to oil palm plantations in KOMPAK Sembuluh's founding document and other contexts has primarily been based on class. The very term *rakyat* ([the] people) in the term commonly used for such an organization (*organisasi rakyat*) is the clearest indication of this orientation, although constant references to the poverty (*kemiskinan*) of local inhabitants and their failure to achieve prosperity (*kesejahteraan*), especially compared to the obvious affluence of plantation management staff, also point to this emphasis. Yet, certain passages of the letter attempt to ground the claims of the local society in another idiom—that of indigeneity and the entangled notion of *adat*, since in the Indonesian context it is the continuing operation of *adat* that is asserted as the primary criterion of indigenous status (Acciaioli 2007).

In the first paragraph of this statement the organisation itself is deemed to have "arisen with the aim of protecting (*mengayomi*) the rights of the customary society (*masyarakat adat*, i.e., local indigenous people)", thus claiming the warrant of indigeneity in order to argue for a special class of rights to be extended to members of its society. The document's use of the phrase "management of resources" based on "local wisdom" (*kearifan lokal*) encodes a reference to one of the key claims by the Indonesian indigenous peoples' movement (*gerakan masyarakat adat*, a phrase more literally translated as "the movement of customary communities"). The later reference to "transgressions of

basic human rights" also alludes to the primary discourse of justification that has nurtured the indigenous peoples' movement throughout the world, especially in the special bodies created by the United Nations concerning basic human rights (Niezen 2003).

Yet, unlike the case of the Dayak plasma peasants in Ngabang, this self-identification as a *masyarakat adat* is absent from the pronouncements of inhabitants of Sembuluh I and Sembuluh II villages in most contexts. As the village headman of Sembuluh II declared in an interview, *adat* is "ancient and old-fashioned" (*kuno dan kolot*); people in Sembuluh II aspire instead to be modern (*moderen*) and advanced (*maju*) in their attitudes and activities. For example, when discussing usages related to land, this headman (as well as numerous other informants) tended to use such terms as "tradition" (*tradisi*) and "usage" (*kebiasaan*) rather than the term *adat*. In the demands against PT Kerry Sawit Indonesia, the subsequent use of the term "people's forest" (*hutan rakyat*) rather than "customary forest" (*hutan adat*), as is used in other areas where affiliation to the Indonesian *gerakan masyarakat adat* has been stronger, reveals the very tentativeness of the Sembuluh identification as *masyarakat adat*.

Local Identity and Oil Palm Aspirations

It is precisely such ambivalence that has rendered attempts to obtain land compensation from the plantation companies so vexed. Indonesian law and local regulations issued by the Seruyan district head mandate that compensation can only be given for individually owned land. Communal land, with temporary use rights (*hak ulayat*) communally accorded to individuals depending on their need in each season (precisely the sort of land most commonly regulated by *adat* in Indonesia), is not to be compensated. The basic compensation rate of IDR 425,000/ha can be supplemented if it can be shown that there are gardens (*kebun*), with fruit trees such as durian and jackfruit, owned by a specific individual. However, such special consideration has not been granted to trees producing sap, either conventional rubber or *jeluntung* trees. Indeed, at the time of research, one incident just outside Tabiku, the most isolated hamlet of Sembuluh I, exemplified the failure of most local measures of resistance to achieve their aims. Along with four associates, one man had stolen the key to a

company tractor, demanding that he be compensated for his rights to a stand of *jeluntung* trees that he still tapped and for which he could still produce the original government document from 1957 granting him the right to harvest their sap. However, the only result was the jailing of the five villagers in Sampit, with little prospect of the demand for compensation being acknowledged.

Most of the cases regarding compensation have revolved around cultivable land (*lahan*) that had previously been opened up for dry rice fields (*ladang*) as opposed to gardens (*kebun*). It is in this context that the claim to status as *masyarakat adat* is most clearly weakened. For, unlike the surrounding Kohin Dayak who comprise a considerable part of the population of Bangkal village at the northern edge of the lake, the villagers of Sembuluh I and Sembuluh II have no clearly codified *adat* in regard to the possession of *ladang* land. The population of these two villages is multi-ethnic, with strong cultural influence from the Banjarese migrants who settled generations ago.[6]

In the contemporary context, some villagers, especially those who claim Banjarese ancestry, identify the ethnicity of the settlement as predominantly Malay (*Melayu*). Other villagers, however, assert that the ethnicity of the village is simply Sembuluh, a category that is neither Dayak nor Malay, but possessing an independent status of its own that is acknowledged as deeply "nuanced by Islam" (*bernuansa Islam*). Such informants, noting the continuing use of a unique Sembuluh language in the more isolated hamlets (*dukuh*), such as Tabiku and Lanpasa, acknowledge that the original language of the area must have been similar to Kohin, but had been relexified through the generations with the influx of migrants from South Kalimantan and elsewhere. Accompanying this reworking of the local language has been the thoroughgoing transformation of local culture that has abolished the observance of local Dayak custom (*adat*).

Given this tangled nexus of language, ethnicity, and culture, the Sembuluh I and Sembuluh II villagers consequently no longer recognize the authority of the *damang*, the Dayak *adat* figure officially acknowledged after central government ratification of Central Kalimantan's separation from Banjarese-dominated South Kalimantan in 1957 (Miles 1976). Like the *timanggung* in West Kalimantan, the *damang* is part of a governmental hierarchy of *adat* officials, acting as a representative of the sub-district head (*camat*) to adjudicate customary matters at the sub-district level (Pemerintah Daerah Propinsi

Kalimantan Tengah, Sekretariat Daera Propinsi Kalimantan Tengah, Biro Pemerintahan Desa 1999; Usop and Suan 1997). This rejection undercuts any assertion of *masyarakat adat* status for the Sembuluh villagers and undermines any attempt to claim special recognition of their land claims under the terms accorded to Indonesian "indigenous peoples".

Yet, as in the case of West Kalimantan, the relationship between local Sembuluh inhabitants and *adat* is complex, even vexed. What the government in collusion with the oil palm plantation enterprises has been forcing upon the Sembuluh villagers is a sort of nascent assimilation to standard Dayak land tenure usages. Unlike the land tenure usages of many other Dayaks, including those of West Kalimantan settled in Ngabang (Kanayatn and others), the inhabitants of Sembuluh I and Sembuluh II have not traditionally adhered to a tenurial norm of persisting rights based on first clearance of a plot. The first person to open a dry-rice field (*ladang*) has no persisting rights once use of the field has been abandoned for at least two years.[7] Once the area is again fertile, any person from the local region—they need not be from even the same village—may re-open the field without asking permission from the previous user. Nor is there a requirement to seek permission from any central *adat* council or similar group of *adat* functionaries to use that land, since it is precisely those sorts of customary bodies and officials that are not acknowledged by the Muslim Sembuluh villagers. Instead, such a pattern of relatively open-access land use simply constitutes "tradition" (*tradisi*) or "usages" (*kebiasaan*), as noted above. However, oil palm enterprises require greater clarity than such "usages" can bring in determining who is entitled to compensation for areas of land included in their concession. Legally, no compensation can be paid to the village as a whole for the areas of former dry-rice fields, since *hak ulayat* or communal rights are not acknowledged; those eligible for compensation must be real individuals, not corporate bodies.

However, in accordance with directives from the district government, as it seeks to appear in harmony with Dayak *adat*, the companies have determined that those who first opened the land for *ladang* within the current confines of their concession are the ones entitled to compensation. Such a situation has led to the emergence of open conflict among villagers, unlike the stronger social solidarity still evidenced by the more homogenous Dayak communities of Ngabang.

These arguments over what lands Sembuluh villagers assert their grandfathers and other ancestors first opened up run counter to the assertions of despairing local elders that such rights based upon first opening have never been recognized in Sembuluh I and Sembuluh II as "traditional". Ironically, what is revealed by comparison with Bangkal, where a variant of Dayak *adat* still prevails, is that the Muslim villagers of Sembuluh are being forced into the mould of surrounding Dayak "custom", which the government and oil palm enterprises can at least recognize as a codified form of custom in comparison to the fluid, uncodified usages that were informally observed in Sembuluh I and Sembuluh II. Yet, this is an *adat* (and associated identity) that these villagers reject, being opposed in their eyes to both the Islam and modernity that they have sought as the cornerstones of their own identity. The only possibility of gaining acknowledgment of their claims, based on positing an *adat* basis for local tenure claims, would negate the very terms on which the aspiring modern Muslim inhabitants of Sembuluh I and Sembuluh II wish to operate.

Ironically, the vexed nature of any assertion of a local *adat* arises from the same motivation that was evident in the case of the plasma peasants of Ngabang, West Kalimantan. What KOMPAK Sembuluh and other organisations that have arisen in this area have sought to promote is a rejection, not of the very process of commodification of the environment that oil palm plantation expansion represents, but of the extent of the alienation of land and natural resources from their control that this process has effected. As long ago as the 1910s, Lumholtz (1921: 105) noted the involvement of Sembuluh villagers in rubber cultivation when they rejected the daily wage he offered them to work as his bearers on the grounds that they could earn much more cultivating their rubber trees. Such grounds of refusal indicate an early engagement of local villagers with capitalism and one might say an early involvement in processes of commodifying the environment. The circumstances of the ongoing compensation claims against PT Salonok Ladang Mas for *jeluntung* trees in Tabiku, the cultivation rights to which were granted in 1957, demonstrates the continuing engagement by Sembuluh villagers in such processes.

What many of the Sembuluh villagers currently want is a greater and more just participation in the modern, accelerated form of this capitalist process on their terms, rather than a reversion to a form of

custom-based community tenure from which they feel they moved on long ago. Even the most radical of the community advocates, including the community member who cut the bridge connecting the two sectors of the PT Agro Indomas plantation, argue that they do not reject the plantations as a system; what they want, as their list of demands to PT Kerry Sawit Indonesia reveals, is fairer compensation, greater labour opportunities at both field worker and management levels, the minimisation of and compensation for environmental degradation, contributions to local village development in such sectors as education, and other benefits from the accelerated modernity that such plantations can bring—in short, what they see as their fair share of the benefits of such investor-inspired development.

In this they are no different from the Dayak plasma farmers of Ngabang. In fact, some of the Sembuluh villagers protesting against the plantations, aware of the PIR-Bun system implemented in West Kalilmantan and elsewhere, including transmigration sites, declare that they would endorse the development of oil palm plantations in the Sembuluh region if only a plasma system were implemented in their locality, in which they would receive land and facilities for complementary smallholder development (little realizing the pitfalls of participation on these terms, as experienced by the Ngabang plasma farmers).

CONCLUSION

Palm oil is the only agricultural commodity to which special discussions have been devoted at congresses of the Indigenous Peoples' Alliance of the Archipelago (*Aliansi Masyarakat Adat Nusantara*, AMAN) since its formation in 1999 (Iswaningsih 1999, Kartika and Gautama 1999, Waluyo 1999, Kleden et al. 2008). In part, this inclusion has reflected the growing importance of oil palm plantations to the Indonesian economy, with both domestic and international demand rising and the Indonesian government proud of its position as the world's leading CPO producer. However, its inclusion as a topic was primarily warranted by the threats it posed for archipelagic indigenous peoples, many of whose demands centered upon claiming local management of resources and environment. According to the proceedings of the first congress, the granting of concessions to oil palm plantation companies was based on the government's claim

that the land was state land (*tanah negara*), while local communities involved in the indigenous peoples' movement claimed it to be customary land (*tanah adat*)—hence, government concessions simply constituted land seizure. Moreover, such seizures were said to be often accompanied by government corruption and collusion, intimidation by the state apparatus, including the military, as well as pressures to relinquish cherished local belief systems linked to *adat*. The establishment of these plantations was accompanied by increasing tensions in the affected communities, rising criminality, the rape of local women (*perempuan adat*) working as plantation labourers, and increasing poverty. As a result, AMAN has issued wide-ranging demands regarding the rights of indigenous peoples or "customary communities" against such incursions (Kartika and Gautama 1999: 69–70).

In many respects the expansion of oil palm plantations has been taken as a metonym of the entire system of global capitalism, as well as the process of commodification on which this system depends, against which the indigenous peoples' movement defined its own "authentic" (*asli*) characteristics and claims. The *masyarakat adat* movement, with which the pan-Dayak movement in Borneo is strongly affiliated, has operated on a platform that rejects the increasing commodification of the environment that the entry of foreign capitalist interests has accelerated since the economic reforms of the New Order. It appeals to traditional or local wisdom and recasts local customary codes, whether the *sasi* system in Maluku (Zerner 1992) or the *ombo* system of Lindu (Acciaioli 2009: 102–3), as "community-based natural resource management systems". These notions are posed as alternatives to the investor-based capitalism promoted by the New Order and its successors—indeed to the very processes of environmental commodification.

Yet, this capitalist penetration of rural localities by entrepreneurs has intensified in recent years, with an increasing orientation to foreign-based capital. This has been driven by the need for investment to aid recovery from the Asian financial crisis of the late 1990s and by the demands for increased regional income (*Pendapatan Asli Daerah* or PAD) arising from regional autonomy within Indonesia, especially with its fostering of the proliferation of administrative units at provincial, district, sub-district, and village levels. The rapid expansion of corporate oil palm plantations in Central and West Kalimantan,

almost all of them involving foreign capital, serves as a paradigmatic case of such an orientation.

Although the stance of national NGOs such as AMAN and of various local NGOs involved in advocating for the rights of local peoples may be clear in regard to their rejection of oil palm plantations, the stances of the local peoples directly experiencing the impact of this mode of capitalist penetration are often much murkier. As the above comparison between the forms of opposition adopted by the villagers of Ngabang in West Kalimantan and Sembuluh in Central Kalimantan demonstrates, local villagers' reactions are a complex of many attitudes and strategies, with some characteristics constant across contexts and others depending upon the distinctive vicissitudes of local circumstances.

Though feeling keenly the injustice of their position relative to the PIR-Bun V plantation complex, the plasma peasants of Ngabang largely restricted themselves to acts of everyday resistance—covert sabotage, pilfering of extra fruits, use of unsanctioned marketing networks—seemingly unable to mobilise at a wider level in more confrontational forms and to invoke independent organisational support. This reflected the degree to which they were trapped in a maze of local organisations formed by the government to facilitate their "enclavement" in the local plantation economy. Even their resort to the idiom of *adat* to gain some compensation from the plantation company PTPN XIII has operated to limit the forms and extent of their opposition and to facilitate the company's control of what can be depicted as the native "Other".

The villagers of Sembuluh I and Sembuluh II largely (though not entirely) avoided the idiom of *adat* in their quest to achieve just compensation from the oil palm companies that now ring their lake, but that very eschewal has made it problematic to argue for compensation on a consistent basis, as well as fostering local social conflict due to competing claims to ownership of plots now attracting offers of compensation on company terms. Although more open to alliances with local NGOs in their efforts, their resort to modern organisational forms has not prompted any more fundamental concessions on the part of the plantation companies than has the exercise of *adat* sanctions by the communities of Ngabang.

What unites these two groups, and perhaps in great measure undermines their efforts, is their basic acceptance of the paradigm of

large-scale capitalist enterprise presented by the plantation economy. In both cases they seek not to undermine the system as a whole, but want to gain greater access to the benefits that the system can offer. They demand just compensation for land, greater absorption of local inhabitants (*putera daerah*) into staff positions, and other sources of profit-sharing. Their quest for inclusion in this form of modernity has undermined their resistance in both cases—the covert resistance of the plasma peasants of Ngabang as well as the overt oppositional actions and organisations of the Sembuluh villagers. For the spread of capitalist enterprises that these oil palm plantations encapsulate, whether run by governmental or private companies, constitutes a relentless process—a phase of globalisation that seeks to include local inhabitants, but only on unequal terms.

NOTES

1. In 2005, the government and companies finally agreed to allow two farmer observers at these meetings in response to mounting pressures and acts of resistance.
2. The acronym KOMPAK derives from the full name Komunitas Masyarakat Pengelola Kawasan, translatable as "The Community of the Local Society of Managers of the Region". The Indonesian term *kompak* ("cohesive") has obvious connotations of solidarity, rendering it an ideal representation for the organization.
3. Acciaioli (2008: 102–3, 116–17) discusses in detail the youth organization, Serikat Pemuda Peduli Daerah, formed to complement the activities of KOMPAK Sembuluh. That account includes a translation of the foundation document for the formation of this Union of Youths Concerned for their Region, which is modelled on the KOMPAK Sembuluh charter document, including the wording of its vision and mission.
4. However, many of the founding members of KOMPAK Sembuluh had taken part, when they were themselves in stages of their lives more appropriate to membership in SPPD, in the confrontations on company land and demonstrations in the province's economic hub Sampit in the late 1990s, when the first companies were entering the Sembuluh area.
5. A complete translation of this letter is found in Acciaioli (2008: 118–19).
6. Of course, the predominance of Banjarese migrants in Sembuluh I and Sembuluh II also constitutes a prima facie case against the declaration of indigeneity as a warrant for special consideration in compensation for land. This circumstance has not escaped the attention of many of the officials of KOMPAK Sembuluh and of SPPD.

7. In contrast to these conventions for dry-rice fields (*ladang*), opening a garden (*kebun*) usually involves a persisting set of claims, since gardens are usually planted partially with trees and other perennials that have fruits which can continue to be harvested.

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CHAPTER 11

Situating Transmigration in Indonesia's Oil Palm Labour Regime

Tania Murray Li

Poverty alleviation is highlighted by government and corporate actors as a principal rationale for oil palm expansion (Patterson 2007). As some chapters in this book demonstrate (Chapters 3, 4, and 7), and my case studies in Sulawesi confirm, smallholders working on good land, with advantageous links to a responsible corporation, can prosper through oil palm. Conversely, as numerous studies have also shown, smallholders who lose access to land and forests through encounters with oil palm, or who are incorporated into oil palm production on adverse terms, can be radically impoverished by the arrival of this crop.[1] My focus here is on people who encounter oil palm as workers, or would-be workers—people who need work, but are not guaranteed to find it.[2] I am especially interested in the tactics used by plantation corporations to produce a pool of abundant and compliant labour, and the critical role of the revamped transmigration program in supporting the emergence of Indonesia's oil palm labour regime.

My study has to be seen in the context of a basic fact that promoters of oil palm as a vehicle for poverty reduction neglect to mention: oil palm requires considerably less labour per hectare than the major alternative tree crops. In contrast to rubber, which requires one worker per 2 ha, an established plantation uses only one worker per 4–10 ha of land, depending on the efficiency and stage of production

(Chapter 2). Many of the field workers are hired on a casual basis through sub-contractors, and are not covered by minimum wage and other health and safety provisions that "official" employees enjoy. The low labour absorption of oil palm relative to other estate crops and the use of casual contract labour were already noted in Sumatra's east coast in the 1970s (Stoler 1995: 167). Nevertheless, proponents of oil palm continue to exaggerate the employment generated by this crop. One Indonesian politician, announcing a planned 1.8 million ha plantation, claimed it would create jobs for 18 million people (i.e., ten jobs per ha) (Friends of the Earth, LifeMosaic, and Sawit Watch 2008: 77). Indonesia's oil palm lobby claims the industry employs five people per ha (Indonesian Palm Oil Board 2007: 21). Some industry sources propose a more modest ratio of one person per 2–3 ha. Two independent studies found that established plantations require around 85 work days per ha per year, or roughly one person per 4 ha (Friends of the Earth, LifeMosaic, and Sawit Watch 2008: 78). The employment ratio is even more dismal when viewed in relation to the opportunity cost of land allocated to plantation corporations but not used. In Sambas district, West Kalimantan, in 2006, 15 large plantation corporations held 199,200 ha, and employed only 1,944 people (i.e., a ratio of 1:100). In contrast, non-oil palm smallholdings in Sambas covered 80,000 ha and provided livelihoods for 207,350 farmers, a ratio of roughly 3:1 (Milieudefensie, Lembaga Gemawan, and KONTAK Rakyat Borneo 2007: 20–1).

Although the number of workers needed is far fewer than claimed by oil palm proponents, plantations do need workers, ideally workers who can be employed on terms that generate maximum return on the capital invested. For this to happen, plantation corporations need to attend both to the sourcing of labour and to the mechanisms of labour control. Sourcing concerns issues include where to recruit, and what kind of people to employ, as workers are differentiated by ethnicity, age, and gender. Control is exercised directly through terms of employment (permanent, casual, contract, unionised), and indirectly through the "dull compulsion" that obliges people to work under dismal conditions because labour is abundant, but work is scarce. As I will show in this chapter, the deliberate creation of conditions of labour abundance through the dual strategy of enclosing land to dispossess the local population while also importing labour from distant locales is a prominent feature of Indonesia's oil palm labour regime.

Contemporary solutions to the sourcing and control of labour show marked similarities with the labour regime that emerged on Sumatra's east coast a century ago, and I begin with a review of the debates and practices surrounding plantation labour in the colonial period, drawing primarily on the work of Ann Stoler (1995). Then, I examine the new approach to transmigration captured in the late-New Order Transmigration Law of 1997, amended in 2009, and the Transmigration Ministry's Workplan 2010–14. These documents advance the argument that private investment in monocrop agribusiness ventures on a huge scale is the key to poverty reduction in backward rural areas outside Java. Since capital is globally mobile, however, attracting it is a matter of comparative advantage. Hence, the goal of the re-focused transmigration program is to set conditions for investment that are favourable to capital, by placing abundant land and labour at the investors' disposal. Tracking the implications of this argument as they play out on the ground, I then describe the labour regimes I encountered in two contrasting sites in Central Sulawesi that I visited together with Arianto Sangaji of *Yayasan Tanah Merdeka*, Palu, in 2009. In both of these sites transmigration played an important role in shaping the terms of encounter between capital and labour, although the terms in each case were very different. Finally, I consider the implications of the current trend that favours capital over labour, absorbs huge areas of land, and leaves rural populations in need of land and/or work seriously exposed.

LABOUR CONTROL ON SUMATRA'S COLONIAL-ERA PLANTATIONS

Across colonial Asia, planters complained continuously about the problem of labour shortage, and set in place mechanisms to import labour in numbers greater than they could actually use. In this way, they deliberately created an artificial labour surplus, as a mode of reducing the cost of labour and enforcing labour discipline. They used various mechanisms to pass the costs of recruitment on to the workers themselves, usually by charging them for their passage. This sum, sometimes combined with a cash advance, constituted a debt to the company to be paid off through years of labour, and formed the basis of the indenture system (Breman 1990: 18–20). Significantly,

the people whose land was taken over by the plantation were seldom employed there, a practice legitimated by the "myth of the lazy native" (Alatas 1977, Breman 1990: 15–18), but more accurately a reflection of the difficulty of extracting consistent, cheap labour from people who still had access to patches of land in the vicinity, and hence other options.

On Sumatra's east coast, transnational investors developed an extensive belt of plantations beginning in the 1860s, eventually covering almost all the land on an area roughly 60 by 250 km (Stoler 1995: 2). They used labour brokers to import labour under indenture, initially from China, and later from Central Java where the "declining welfare" produced by colonial policies yielded an abundant labour supply (Stoler 1995: 28–30, Husken 1994). The indenture system was backed by a punitive legal regime known as the Coolie Ordinances, the first of which was passed in 1880 (Stoler 1995: 28). Around 90 per cent of the imported workers were men. Imported women workers were paid wages so low they could not survive on them, and were thus obliged to undertake sex-work in the coolie barracks, which were located inside the estate boundaries (Stoler 1995: 31–2). Through high prices, ready credit, institutionalised gambling, and other mechanisms, the estates often succeeded in trapping coolies into extending their contracts, but the terms made it clear that at expiry, they were to be repatriated to Java (Stoler 1995: 35). The situation changed after 1900, as indenture was phased out, and costs of recruitment from Java increased, causing planters to consider the need for a "free and normal labour market" and a "permanent labouring population" to service the estates. The "normal" labour situation the planters desired, writes Stoler, was one in which "supply far exceeded demand and alternative income sources were severely limited, with the 'ideal' result that estate wages would remain depressed" (Stoler 1995: 37).

Planters debated two different approaches to achieving this goal. One approach, favoured by the colonial authorities centred in Java, was the forerunner of transmigration. It involved importing families and settling them in "agricultural colonies" that would help to relieve the problem of poverty in Java, while also furnishing labour for the estates. Planters objected that if the Javanese were given land, they would not be reliable workers, at least not in the short term. Proponents countered that abundance and control could be achieved

most reliably by using agricultural colonies as instruments in a long-term strategy, enunciated with chilling clarity by the Deli Planters Association.

> If it should be the case that the number of settlers increases as a result of having many children, gradually the land granted them will be inadequate to provide their subsistence—in other words, if a sort of overpopulation and poverty develops, then the surplus will have to seek work on the estates and thus the desideratum will be achieved—a local labour pool (1932: 15, cited in Stoler 1995: 214n23).

Not all planters were prepared to take such a long term view, however, and proposed to solve the labour problem more quickly by forming "labour settlements". The labourers would be settled as family units, and given access to tiny plots of land just sufficient to cheapen the cost of the wage, but not big or secure enough to draw labour away from the plantation (Stoler 1995: 39). For the planters who favoured this solution, there was another point of debate. Building labour settlements inside the estates would imply a responsibility on the part of the companies to support the workers and their families during economic downturns; locating settlements outside the estates would interrupt the uniform plantation landscape, and make the workers more difficult to control (Stoler 1995: 40–1).

In the end, little action was taken to institute a stable post-indenture labour regime, and the solutions found were pragmatic and ad hoc. It was the economic crises of the 1930s depression and the two world wars that changed the situation, as planters were unable to repatriate all their workers to Java and were obliged to yield some corners of plantation land to enable their residual workforce to grow food on an emergency basis. The main impetus came from the workers themselves, who organised to reclaim estate land and form squatter settlements (Stoler 1995: 40–6, 153–7).

In the 1950s, the de facto agricultural settlements that emerged on the plantation fringe through the workers' own initiatives had precisely the effect that the planters rejecting the formation of official "agricultural colonies" had feared: the capacity of the squatters to sustain themselves outside plantation work created a labour shortage that threatened estate production (Stoler 1995: 149). A generation

later, by the time of Stoler's field research in the 1970s, the squatter villages had reached precisely the point described half a century earlier as the planter's ideal. The land they had acquired for use as independent cultivators was insufficient to sustain the increased population stuffed in the nooks and crannies between the plantations, hence they were obliged to work for the plantations but on adverse terms, as "temporary" contract workers with pay far below the official minimum wage. Their settlements had a superficial resemblance to peasant villages, but their function was that of a labour reserve, from which the plantations could draw as needed, but for which they took no responsibility (Stoler 1995: 157, 182, 190, 195). As Stoler discovered, the planters she interviewed often did not know the names of the settlements from which the contractors drew the casual workers who performed most of the labour on the estates (1995: xvii, 177–8). They did not need to know these details, because the super-abundance of local labour meant that the old problem of supply had effectively been solved. Control was embedded in the fierce competition for scarce work, and in the repressive political conditions of the New Order that made unionisation and other protest actions dangerous. It was also an outcome of the position of workers with one foot inside and one foot outside the plantations, for whom the clarity of the old confrontations—capital versus labour—had been undermined (Stoler 1995: 196–201).

A century after the massive expansion of plantations in Sumatra, a new wave of expansion began in Sumatra, Kalimantan, and Papua, this time focused on oil palm. The following section examines the encounter between labour and capital at this new conjuncture, in which state-supported transmigration is playing a prominent role.

TRANSMIGRATION REVISITED

At the end of the New Order, transmigration received considerable negative press as production failures and ecological damage were exposed, grievances aired, and thousands of transmigrant families who had been placed in Aceh and West Papua were evicted by their unwilling "hosts" (Li 2002). Yet the program did not die. After a quiet period, it began to move ahead in the direction that had already been set out in the late New Order 1997 Transmigration Law: an "advanced

liberal" direction that relies upon private investment to speed up development in backward areas and emphasises competition, choice, efficiency, accountability, participation and partnerships.[3] Choice, for example, is the keyword of two new practices in the Ministry of Labour and Transmigration. To establish that there is still a popular demand for transmigration, despite the bad press, the ministry opened a website with an online poll and reported receiving 250,000 hits from would-be transmigrants (Government of Indonesia 2010: 16). Just as autonomous individuals may choose whether to join the program, so may autonomous provincial and district governments. In place of the old system, in which the Transmigration Ministry imposed the program in a centralised manner, ministry officials now play the role of facilitators. They invite governors who are interested in participating in the program as senders or receivers of transmigrant populations to sign MOUs and review proposals. Indeed, receiving districts are encouraged to compete with each other by submitting proposals capable of attracting investment funds.

As in the past, the transmigration program's key documents state that the main purpose of transmigration is poverty alleviation. The 2010–14 Workplan has tables of statistics showing the extent of rural versus urban poverty and the low contribution that the outer islands make to the Gross National Product. Its diagnosis of the cause of this unevenness differs little from previous iterations of the transmigration program: poor infrastructure and inefficient land use in the backward hinterlands of the islands outside of Java, and the uneven spread of "human resources" (*sumberdaya manusia*)—too many people in some places, not enough in others (Government of Indonesia 2010: 7). The new program's solution, however, is distinct. The 1997 Transmigration Law proposed linking transmigration to agri-business development by private investors focused on products with a comparative advantage. This direction was further consolidated in the 2009 Amendment and 2010–14 Workplan, designed to attract private agro-industrial investment in single commodities (*komoditas unggulan*), and jump-start the development of new towns envisaged as growth centers. The 2009 Amendment also clarified the role of autonomous district governments and the government's role in overseeing the "partnerships" between transmigrants and the investors with whom they would be linked (Government of Indonesia 2009).

The rationale of the new program is that reliance on private capital requires backward regions seeking investment to compete with each other, and compete also on a global scale. Hence the task of the transmigration program is to make the targeted regions into an attractive package for investors, by supplying labour and creating new towns with facilities that meet "international standards" (Transmigration 2010). The number of families to be moved into the transmigration zones over the five-year period (2010–14) was around 46,000, or 9,000 per year (Government of Indonesia 2010: 13). Regional governments prepare brochures designed to entice investors—and the Transmigration Department—to select their region over competitors. A prominent element in the enticement is the area of land—tens or hundreds of thousands of hectares—that the regional government has designated for agro-industrial development.[4]

The 2009 Amendment establishes three categories of transmigrants who are entitled to different packages of inputs from the government. Transmigrants in the general program (*transmigrasi umum*) receive a full package of inputs as gifts from the government. The package includes transportation, farm land, equipment, a house and initial food supply. The second category, assisted transmigrants (*transmigrasi swakarsa berbantuan*), are the ones "intended by the government to participate with the company as partners" (pasal 1.10). The program is to be carried out by the government "with the participation of the company as the partner of the transmigrants" (*dengan mengikut sertakan badan usaha sebagai mitra usaha transmigran*) (pasal 8.1), under government supervision (pasal 8.2). From the government, the transmigrants receive transportation and a house, productive land, guidance, and "protection of their partnership with the company" (*perlindungan hubungan kemitraan usaha*) (pasal 14.1), to ensure it is fair and mutually beneficial (explanation of pasal 14). From the company, they are to receive investment credit, training, a guaranteed market, and "a guarantee of a sufficient income to live decently" (*jaminan pendapatan yang memenuhi kebutuhan hidup layak*) (pasal 14.3). The amount of land they are to be given by the government is not specified, but the document states clearly that the purpose of granting them land is "to reduce the burden of credit the transmigrant must bear" and to "serve as the transmigrant's primary asset for entering into a partnership with the company" (explanation of pasal

14.1). For the third category, independent transmigrants, the government is to organize their move and provide information about work opportunities or "facilitate" their acquisition of land, provide them with a free houselot, and guide them in their partnership with a company. Their other needs are to be met from their own resources, or by a company (pasal 15).

From the perspective of labour sourcing, the transmigration program maintains the old assumption that the quantity and "quality" of labour outside Java is not sufficient to attract investors, or to develop the land's potential independently. Hence, migrants from Java must be imported, and their labour placed at the disposal of the agribusiness investors whose capital and managerial capacity is expected to create conditions of prosperity for all to enjoy. Seen from the perspective of labour control, the three programs look somewhat different. General transmigrants could, in theory, use their government-allocated land as they choose and become independent smallholders who may or may not plant the commodity designated as the anchor of agribusiness in the zone in question. The "assisted" category are clearly destined to be contract farmers (known as plasma) for agri-business schemes, bestowed with an asset whose purpose is to enable them to contract with the company and integrate their land and labour into its production regime. The independent transmigrants could become a pool of landless labour, conveniently placed and housed near the plantation, without the plantation having made any commitment to their employment, still less a guarantee of their well-being. Alternatively, these independent transmigrants might come bearing capital of their own that they can use to buy up land to farm independently, or to develop as contract farmers with company assistance. The five-year plan does not define how many transmigrants will be recruited into each category, but it does indicate a land allocation of roughly 2 ha per household moved, suggesting that more people will be in the general and assisted categories.[5]

On the ground, the significance of distinct categories of transmigrants pales in comparison to the differential effects of the two main models governing the "partnership" between the companies and the plasma farmers attached to them on contract. During the late-Suharto period, the principal model was one in which transmigrants retained control over the 2 ha of oil palm land they were allocated, managed

the labour process themselves, and received payment monthly from the plantation company based on the volume of their product, minus deductions to pay off the costs of establishment. As I will show in the case study below, transmigrants and "locals" with this kind of arrangement can sometimes prosper through smallholder oil palm. Since around 2005, however, the partnership model preferred by the plantation corporations is one in which they manage all the land, including the land allocated to transmigrants, as a single block.[6] The "contract farmers" do not farm: they receive a periodic dividend as the share due to the land they have placed under plantation management, and they can work as plantation labourers to receive additional income if they so choose. Under this system, the only difference between transmigrants with or without an allocation of land is whether they receive a dividend for putting "their" land into the plantation pool. If the dividend is low or erratic, their situation is not very different from that of people without any land at all.[7]

By the second generation, as the colonial-era planters in Sumatra accurately foretold, even transmigrants who receive land initially will have difficulty supporting themselves because the 2 ha allocation is insufficient. In effect, when transmigrants are placed around the edges of a plantation on small or inadequate land, they become dependent on wage work for the plantation, and unable to reproduce themselves outside the plantation labour system. Yet their links to the plantation are as casual, contract workers who can be hired or dismissed according the whims of the labour broker. It is hard to see how the investor's obligation to provide adequate income to its attached transmigrants can be met under these conditions, or how it could be enforced even in the short run, much less across the generations. The law states that a company's failure to develop fair and mutually beneficial relations is grounds for withdrawing its licence (pasal 35c), but in view of the total transformation in landscapes and livelihoods that oil palm brings about, there can be no reversion to the status quo ante.

Viewed from the perspective of labour control, there is a further aspect of the renewed transmigration program that merits attention. The program is designed to integrate small transmigrant settlements in nooks and crannies, wherever land is "available" in and around existing villages, all of which are deemed to be part of the overall transmigration zone (*wilayah transmigrasi*). This means, on the one

hand, that some of the benefits of upgraded facilities (roads, schools, electricity supply) are broadly shared, reducing the contentious politics of favouring outsiders over locals. It also means an increased pressure on land among the existing population as parts of their customary land, and the frontier forest that serves as a reserve for future generations, is allocated to the agri-business investor, or to the incoming transmigrants. At the same time as their land access is diminished, they find themselves in competition with transmigrants for scarce plantation jobs. The potential for conflict between locals and transmigrants over both land and jobs is clearly very high, and more likely to be framed in ethnic or religious than in class terms, a scenario that echoes the one that emerged on Sumatra's plantation belt a century ago. The net effect of these arrangements is that the land around the plantations is stuffed with people who must find work because they lack the capacity to reproduce themselves autonomously, but towards whom the plantation has no obligation, thus meeting the transmigration program's explicit objective: to attract footloose investors who will place their money where they can make maximum profits.

LABOUR AND CAPITAL ON SULAWESI'S PLANTATION FRONTIER

In this section, I examine the labour regimes that have emerged at two sites in Central Sulawesi in which an oil palm company is linked to transmigration, with contrasting effects on the welfare of both the transmigrant and "local" populations. I pay close attention not only to the nature of the smallholder contracts, but also to the agrarian and labour dynamics in the surrounding areas. The larger context is one in which the provincial government is strongly committed to the expansion of oil palm. There were 53,000 ha planted by 2009 (BPS 2010: 268), and much more planned, despite the scarcity of potentially arable land due to the rugged topography. The province has also been strongly shaped by transmigration, having received 84,000 transmigrant families in the period 1970–2005 (Sangaji 2009: 5). A final feature of note in the province is the rapid rise of smallholder cacao production. Planted area increased from 13,000 ha in 1990 to 225,000 ha in 2009 (BPS, Sulawesi Tengah Dalam Angka 1993, 284; BPS, Sulawesi Tengah Dalam Angka 2010, 272). Productivity dropped off sharply

after 2008, however, due to the arrival of a fungal infection that killed the cacao plants outright which could not be controlled by chemical means. At the time of our visit in 2009, former cacao farmers envisaged oil palm as a lucrative and potentially more reliable crop and were eager to take part in this latest boom.

Morawali

The plantation company PT Tamaco Graha Krida (TGK), formerly owned by the Salim group, was bought by Guthries in 2000, and currently falls under Malaysian-based Sime Darby (Sangaji 2009: 9). It began land clearing in 1996, with a license for 10,000 ha, of which 4,000 ha was to be the plantation core or nucleus and 6,000 ha the smallholder plasma, based on the PIR-Bun smallholder scheme run in conjunction with transmigration.[8] The nucleus estate was developed on former forest land the local villagers did not dispute, but that land is relatively infertile. The plantation company was eager to situate plasma on the more fertile land surrounding the core that was already being cultivated by the villagers. The villagers were coerced into giving up land to the plantation, a demand they finally acceded to on the understanding that they would become plasma farmers, attached to the nucleus estate. According to their own calculations, 5,000 village households gave up a total of 7,000 ha. They thought they would receive back the same number of hectares they gave up. Instead, the government allocated their land to transmigrants, so the transmigrants became the plasma smallholders. Transmigrants started to arrive in 1990 and eventually numbered around 1,214 households, to which were added a thousand "local" households. Thus there were 2,133 official plasma households, each of which received 2 ha of plasma land (Sangaji 2009: 13). The remaining 4,000 "local" households that had given up land felt cheated and, after a protracted struggle, a further 1,000 or so received 1 ha of plasma land, but the land was of poor quality and not everyone received some (Sangaji 2009: 15). Thus, on this plantation, as on almost every other, there was a land dispute.

In contrast to the story about land, on the labour side the conditions we encountered during our visit in 2009 were quite good. Conditions were rough initially, when the newly arrived transmigrants were obliged to work for the plantation for little pay in order to

support themselves for several years before their plasma plots started to produce. But, over time, the plasma smallholders—transmigrants and locals alike—prospered with oil palm, and started to employ their neighbours to do most of the work, confining themselves to the role of farm management. In 2009, they were paying their neighbours IDR 50,000 per day, double the minimum wage. Due to a relative shortage of skilled harvest labour, and also due to the kinship connections among villagers, the plasma farmers hired their workers on fixed monthly contracts, so much per 2 ha lot, to be harvested every two weeks, plus extra contracts in between for fertilizing and other maintenance activities. Hence, wage workers were living quite well. The prosperity of the plasma farmers was also creating a secondary economy in activities such as house-building, consumer goods, and services such as food stalls, motorbikes and generator repair, electricity installation, and transportation. A couple working for plasma farmers could make IDR 2 million per month, while the owner of two hectares of plasma land in full production made around IDR 4 million per month, after deductions for the cost of labour, credit and other expenses. Further, not all the land was taken by the plantation, so local villagers were able to maintain diverse income streams, including some rice farming, cacao, cattle raising, and so on.

The prosperity of the plasma farmers, and the relatively high wages of their labourers, presented a problem for the plantation company: unable or unwilling to compete with the wages paid by the plasma farmers, they faced a problem of labour shortage. Their response was to try to attract workers by providing steady work on official contracts with reasonable pay (about IDR 1–1.5 million per month including incentives) and benefits (rice rations, free healthcare, an annual bonus, and a pension scheme) (Sangaji 2009: 20). Some younger workers—especially the offspring of transmigrants, who would inherit little or no land and could not afford to buy any—were attracted by this package, and they found it sufficient to make monthly savings. But the company had only about 500 workers employed full-time in the plantation core and in the factory. Those workers we spoke to all planned to use their savings to buy land and exit the plantation since they knew it could not provide them with a long-term future. The company had recruited a large number of workers who had previously been expelled from Malaysia, where they had

been working illegally. It also recruited workers from Java on two-year contracts. The plantation managers were very concerned that their local sources of casual labour would dry up, as three new plantations were starting up in the vicinity.

It is very significant that the new plantations being established in the area were all proposing to adopt the "dividend" model of partnership, in which the villagers would contract out their land to be managed centrally by the plantation. It is highly unlikely that this arrangement would give landowners the same return they could obtain from oil palm smallholdings, where the returns for their land and farm-management role is around IDR 2 million per ha per month. In the case I will discuss below, landowner dividends were just IDR 350,000 per ha per month. The reasons for the discrepancy include the high productivity of intensively managed smallholdings, and the tendency of corporations that have taken control over villagers' land to be less than transparent about management fees, overheads, and other expenses. In addition to the severe opportunity cost to landowners, the partnership model has a second, indirect outcome that works against labour: it eliminates competition from independent smallholders who are willing to pay high wages to attract loyal workers. Under the partnership model, landowners and other "locals" seeking work will have no choice but to work for the plantation on terms the corporations dictate. Their situation will become even more dire as plantations expand to take up all the available space, squeezing out other livelihood options.

Buol

The plantation we studied in Buol was started in the mid-1990s and is owned by a Buol-based company PT Central Cipta Murdaya (CCM). Its licence was for 25,000 ha, but only around 12,000 ha had been developed, all of it "core". No plasma was planned for this site. As usual, there was a dispute between local villagers and the plantation company over village land appropriated unilaterally, when the bulldozers rolled in unannounced. After a protracted struggle, some of the locals retrieved some of their land in 2000 to use for their own mixed smallholdings, and a few hundred of them were incorporated into a "partnership" scheme the company was persuaded to develop. Under

this scheme, the company used the villagers' land certificates as a basis to negotiate a bank loan, then developed oil palm on the villagers' land and retained the land under company management. The dividend the participating landholders were receiving at the time of our visit was minimal: IDR 350,000 per ha per month, a tiny amount. They did not receive any accounts from the company and had no idea whether the dividend would increase in future years. More worrying still, the company had plans to expand its dividend-based partnership

Figure 11.1. Maintaining a low-cost labour force for harvesting oil palm is an essential part of the plantation strategy (Photo: Wandee 007/Shutterstock)

scheme on thousands of hectares in the surrounding villages, inviting villagers to sign away control over their land in return for dividend income. Our interviews confirmed that the villagers had little understanding of the "partnership" contract and no guarantee at all that the monthly dividend the company would pay them for the use of their land would be enough to live on. The main reason they were eager to join the scheme was the collapse of their cacao production due to the fungal disease mentioned earlier. The plantation company's offer to incorporate their land and make it productive, without requiring them to invest their own labour or capital, came at an opportune time.

Labour conditions and returns to labour on the plantation and in the surrounding villages were much worse than in our Morawali study site, and a closer look at the composition of the labour pool explains why this was so. In several of the original villages located downstream from the plantation, effluent from the factory dumped in the river had destroyed the rice fields and killed thousands of coconut trees when the river flooded its banks. So these villagers had not only lost land to the plantation, they had lost the productivity of their remaining farmland, and with it the opportunity to work for wages in the village economy. They had spoken bravely about refusing to work for the plantation that had destroyed their livelihoods, but the truth was they worked for the plantation when they could because there was little other work to be found. Upstream from the plantation, and stuffed around its edges, the villagers were mainly transmigrants who had been placed there in the 1990s under the "general transmigration" program. They had no formal connection to the plantation. Nevertheless, their land was not fertile and the government had not followed through on promises to supply irrigation. Some had sold up their land to their more successful neighbours and to migrants who had moved in seeking land for the boom crop, cacao (Li 2002). A disproportionate number of the "failed" transmigrants were from Flores and Lombok, minority ethnic groups often stigmatised for their poor farming skills. Together with the young generation, both women and men, "failed" transmigrants formed the planter's ideal labour pool: abundant, desperate for work, and easily controlled. The plantation company sent trucks daily into the transmigrant villages to pick up workers hired on a casual basis by sub-contractors. The villagers complained that their access to work was erratic as there were far more workers than the company needed.

Villagers from outside the daily transport route also worked for this company, and their labour conditions were dismal indeed. Driving through the plantation on a rainy afternoon, my field notes read, "miserable rotting wood houses for the workers, isolation, mud." A visit to a labour barrack on the plantation confirmed this impression. The workers who lived there were mainly men and some couples, crowded into a dozen dwellings with leaky roofs, work clothes hanging from the rafters, and piles of pillows for the ten or more young men sleeping in each room. This was not official plantation housing but part of the casualisation process. In the plantation's narrative, these were "local" workers recruited by sub-contractors. Since they were not on the official payroll, they were not entitled to "normal" worker benefits. These particular workers were from a village 7 km away, too far and too expensive for them to commute daily. None of them owned motorbikes. They were natives to the area, not transmigrants. They were paying rent to the foreman who built the barrack as a source of personal income. They had no electricity, and a foul, polluted, sluggish drainage ditch was the only place to bathe. There was no school within walking distance and they had no access to the plantation transport system that took the children of regularised workers to school. Their jobs were very strenuous and the pay was low. In addition, the company passed down the cost of the workers' equipment. The men had to buy their own harvest sickles. An entrepreneur had offered mini-tractors or cattle-drawn carts for hire to lighten the burden of carrying the harvested fruit through the field to the pick-up point, but the harvesters found the price too high in relation to their pay, so they continued to carry heavy loads on their backs. Women had to supply their own chemical sprayers, the cost deducted from their already meagre pay, and lacked safety equipment. They did not even have boots to protect their feet from thorns.

So why were these people working here? It became clear from discussion with the young men that they had no alternative. They had little or no land in their home villages; intensified policing had made it too risky to harvest timber and rattan from the forest, their old recourse in hard times (also strenuous, for low pay); they had no way to access new land to farm, and no capital to develop it if land was available. Most of them had junior secondary or high school education. Yet this was the best they could do—bad jobs—but even bad jobs were scarce, and they needed them.

During our visit, the plantation workers were threatening to strike over a scheme the company had introduced two months earlier—it had reduced their incomes to the point where they could not make ends meet. The scheme was an extension of the piece-rate system, already being used for harvest work, to other labour tasks on the plantation. Plantation managers and their sub-contractors preferred the piece-rate system for an obvious reason: it reduced the burden of supervision and enhanced labour control. But at the end of the first month, workers found that their pay had shrunk. For some of the young men in the barrack I described above, their pay fell from IDR 700,000 per month, just on the provincial minimum, to IDR 400,000. They could not cover their debts to the (overpriced) company store, still less send money home to their wives. Women from the surrounding villages who worked on tasks such as clearing brush and spreading fertiliser had seen their income drop to just IDR 10,000 for a six-hour work day. In this case, the strike was averted with the intervention of mediators from the Ministry of Labour who held discussions with one of two unions representing workers at this site. Workers did not trust these unions, however, as they saw them as neither independent nor honest. The agreement the union signed on this occasion did not meet the workers' demand to revert to the daily wage system. It only promised to calibrate piece rates for some tasks according to the difficulty of the terrain, through methods that were not specified. In left workers exposed to the manipulation of their wages, and continued downward pressure.

Future Prospects

The CCM plantation planned to expand its partnership scheme into all the surrounding villages from 2009. It also sought to develop a direct relationship with the transmigration scheme, translating its *ad hoc* use of abundant general transmigrant labour and underutilized transmigrant land into a routinized program on a massive scale. The conditions for this expansion were set by the renewed transmigration program I described earlier: the plan to attract private capital to invest in monocrop agribusiness in the hinterlands. The district government of Buol had made a successful bid for one of the transmigration program's "new town" schemes, named the Kota Terpadu Mandiri (KTM, "integrated self-sufficient city") of Air Terang. The area encompassed

by this scheme is massive: 158,000 ha or about 40 per cent of the land area of Buol district. The size and topography make the label "city" decidedly strange. Yet there is an actual city planned and Sangaji and I went to visit the site, a gash carved out of the middle of the forest miles from anywhere, in which bulldozers were busily at work. Officials told us that the plan was to build 6,000 houses, plus offices and a "mini-mall". Our questions of who would occupy the houses and what work they would do went unanswered. We concluded that the most likely outcome was that the dirt road and poorly built bridges connecting the new town site with the existing, rudimentary road network would soon wash out, and the empty houses disappear back into the forest, while politicians and contractors pocketed sizable spoils. But the implications of the "integrated self-sufficient city" transmigration scheme are far more serious than wasted public funds.

The KTM document states that the district head had already approved 50,000 ha for oil palm development, leaving only about 108,000 ha for other uses, much of it steeply sloped. The plantations will be developed by CCM and another corporation already active in the district, plus a new one that promises to develop 20,000 ha. Onto the scene will come 1,500 new transmigrant families, with a total land allocation between them of 7,000 ha (14 per cent of the total area destined for oil palm, leaving 86 per cent directly in company hands for use as plantation core). Much or all of the land allocated to the transmigrants will be placed directly under company management, as the intended partnership model is the dividend scheme. Thus, the transmigrants will be a captive labour force, placed around the edges of the plantations, with little or no extra land to work on. And the people whose land this was—the 43,000 people who were already living in the KTM area before this new scheme—will be added to the mass of people desperately in need of work. They might lose part of their land to the plantation if it falls in the plantation core but, even if they hold on to what they have, they will have no frontier on which to expand.

My conclusion is that transmigration, in this "integrated" area development form, is operating as an instrument for a massive enclosure of land by private capital, enclosure on a scale very much greater than the relatively modest amounts (2 ha per imported family) enclosed by the plasma-based transmigration model in decades past (known as PIR-Bun-Trans), which was the model used in Morawali. Perhaps the

regional governments would have allocated the land to the investors even without transmigration, but the integrated package of land, labour, and facilitation by the Transmigration Department in the form of "placing" workers around the plantation edge does seem to help move oil palm expansion along. Labour abundance is achieved by the two-pronged strategy of closing off the "locals" from access to the land frontier while importing even more people from outside. Within a generation, if not sooner, transmigrants and locals alike will have little or no means of reproducing themselves outside the plantation sector, but the truth is that the plantation sector will not need all of them. Based on the ratio of one worker per 4–10 ha of oil palm, 50,000 ha of new oil palm would require 5,000–12,500 workers but, if the pattern follows that observed in other sites, much of the land will not be developed. If 60 per cent of the land is developed, the jobs generated would be in the region of 3,000–7,500. Hence the effect of the huge land allocation is to establish the labour-stuffed conditions that maximize labour control and hold down labour costs.

Doubtless, young people would prefer not to be plantation workers anyway, but the truth is there are very few other jobs in the district, or the province. In 2009, only 5 per cent of the labour force in Central Sulawesi was working in manufacturing and mining combined (BPS 2010: 103). The plan to develop new towns in the hinterland where agricultural products can be processed and labour-absorbing industries developed is good in principle, but there is little chance such industries would be located in Air Terang. Most of the palm oil is exported crude, with some processed for cooking oil for national consumption. Biodiesel plants are under construction, but not factories for making cosmetics or other palm oil products that could absorb labour in hinterland areas. Since the explicit intention is to dedicate all the arable land in the area to this one crop, the option of planting alternative crops with greater potential for generating jobs and livelihoods is foreclosed for at least a generation, and possibly permanently.

CONCLUSION

The enclosure and allocation of land for oil palm is enabling the emergence of a highly exploitative labour regime. The number of jobless people generated by this pattern of growth likely exceeds the total

required by corporations to fill the function of a labour reserve, for the purposes of wage suppression and labour control. The future for the people currently being rendered "surplus" is not bright. The transmigration program in its renewed, "advanced-liberal" form, far from solving the problem of poverty, is actively producing the structural conditions for sustained impoverishment on a significant scale.

Under favourable conditions, such as the conditions that pertained in Morawali, oil palm can provide a decent living both for smallholders and for workers in the plantation and smallholder sectors. Under the adverse conditions that pertained in Buol, both workers and landowners in the surrounding villagers were impoverished. Locals and transmigrants were similarly affected, and we do not know how they reacted. They will survive for a while on residual patches of land and dismally low wages. Eventually, however, they may pose the question that people who have been pushed off the land often ask, sometimes politely and other times with force, "So where is the place that is really for us?"[9] Land "reclaiming" by organised groups of farmers targeting unused plantation land will likely increase. It will be difficult for people to accept the finality of their de facto proletarian status because many of them have no access to jobs either locally, or in the wider provincial or national economy. Not only is growth uneven across the archipelago, it is also uneven on a national scale, as Indonesia's impressive rise in GNP has been markedly short on job creation.[10] The promise that oil palm brings jobs legitimates the allocation of massive areas of land to oil palm corporations. But the current laws governing plantations and transmigration strongly favour corporations over smallholders and workers. Hence, the expansion of plantations does not compensate for the livelihoods destroyed, or the opportunities foreclosed for future generations.

NOTES

1. *See* Colchester et al. (2006), Forest Peoples Programme and Sawit Watch (2006), Sirait (2009), Friends of the Earth, LifeMosaic, and Sawit Watch (2008: 52–76). *See also* Chapter 4. These studies give more attention to land than to labour issues, though they note low wages, casualised employment, unsafe working conditions, unfair dismissals and other grievances. *See* especially Friends of the Earth, LifeMosaic, and Sawit Watch (2008: 76–84).

2. I have discussed the problem of the "misconnect" between capital and labour in Li (2010) and Li (2011).
3. I discuss advanced liberal development in Indonesia in Li (2007), drawing on Rose (1999).
4. *See* http://www.depnakertrans.go.id/microsite/KTM/?show=main.
5. The Workplan's summary of who will get what is confusing, but from the Workplan Appendix 4, pp. 91–5, I calculate that in 2010, 8,183 families will be moved, 7,845 transmigrant houses will be built, and 16,506 ha distributed (*luas lahan yang dibagikan*). The numbers all increase slightly in subsequent years.
6. The dividend scheme is vulnerable to abuse by government officials, plantation managers, and land brokers who fraudulently enter the names of their family members on the register of households who have handed over land for development. Registration enables them to obtain income without investing any land, labour, or capital at all.
7. The welfare implications of different contract models are discussed in McCarthy and Cramb (2009); Zen, McCarthy, and Gillespie (2008). The relevant legal instruments are cited in Sangaji (2009: 8).
8. PIR-Bun (*Perusahaan Inti Rakyat Perkebunan*) is the original nucleus estate and smallholder model based on Presidential Decree No. 11 of 1974, which incorporates the local community as the plasma smallholders (Chapter 3).
9. A farmer who had been dispossessed multiple times, but insisted on his right to farming land, quoted in Li (2007: 93).
10. *See* World Bank, *Indonesia Jobs Report: Towards Better Jobs and Security for All*. Jakarta: World Bank.

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CHAPTER 12

Malaysian Oil Palm and Indonesian Labour Migration: A Perspective from Sarawak

Sunny Sanderson

> "In the past the frog was under the coconut, but the problem is that now the frog has a phone."[1]

International labour migration makes up an important part of the Indonesian economy and has been viewed by the Indonesian government as a way to decrease domestic unemployment (Sijabat 2008). Each year, about 700,000 documented workers leave Indonesia to take up employment overseas, mainly in Malaysia and the Middle East (ILO 2015). The most recent official data, published in August 2009, indicated that about 4.3 million workers were working overseas, contributing around USD 8.2 billion in remittances to the Indonesian economy in 2008. The number of undocumented migrants was estimated to be two to four times higher (ILO 2015). According to Malay and Axelrod (2015), there are currently about 6.5 million Indonesian migrant workers who, in 2012, sent home USD 7.2 billion in official remittances. These remittances help support around 30 million Indonesians back home (*Jakarta Post* 2009).

However, the Indonesian government also recognises that the work the migrants undertake is highly undesirable, as highlighted by the former Indonesian Manpower and Transmigration Minister,

Erman Suparno, "They do the jobs as no locals or workers from other countries want to do" (Sijabat 2008). Known as "3D jobs", because they are dirty, dangerous, and/or demeaning positions, they are generally in the agriculture, construction, manufacturing, and domestic sectors (IOM 2010). These sectors target unskilled and semi-skilled Indonesian labourers, who are driven by the poverty and lack of opportunities in their own region (Firdausy 2005, IOM 2010).

It has been estimated that 2.5 million Indonesians are working in Malaysia (BNP2TKI 2009). The three main reasons for the high demand for Indonesian labourers are the economic and demographic differences that exist between the two countries (Chapter 1), the institutionalised network of recruitment agents, brokers, and sponsors that is in place, Malaysia's close proximity to Indonesia, and the similarities in language and culture, which simplify working conditions (IOM 2010). A large part of this demand for Indonesian labour is the burgeoning Malaysian oil palm industry. In 2014, the total planted area of oil palm in Malaysia was over 5 million ha (Chapter 2). In recent years, much of this growth has been due to expansion in the eastern states of Sabah and Sarawak. In Sarawak alone, the total area has increased from 23,000 ha in 1980 to 1 million ha in 2014 (Chapter 6), partly reflecting the state's earlier aggressive campaign to expand the area planted (Majid-Cooke 2006a, 2006b). However, it has become apparent that a key factor limiting continued expansion and the industry's profitability is sustained access to an abundant supply of cheap labour (Ming and Chandramohan 2002).

Labour in the Malaysian oil palm industry, including that in Sarawak, is primarily made up of Indonesian migrant labourers, or as they are known in both countries, TKI (*Tenaga Kerja Indonesia*, Indonesian Labour Force). Low wages, long hours, and difficult conditions ensure that few Malaysian residents opt to work in the plantation sector. Instead, the highly porous international border with Indonesia, combined with overpopulation and chronic poverty, ensures a steady supply of Indonesian workers for the Malaysian industry. Oil palm is a highly labour-dependent crop (especially for harvesting) and labour shortages can result in serious crop losses. In 2014, it was estimated that five to ten per cent of the crop was lost due to labour shortages, costing Malaysia's oil palm industry MYR 2.5 billion in export revenue (Raghu, 2014). While the Malaysian plantation sector

views its reliance on foreign workers as a major issue, it is also well aware that Indonesian migrant labourers have been a "lifeline" for the industry (Ming and Chandramohan 2002). The Indonesian government also recognises that the Malaysian oil palm industry is highly dependent on their workers, as highlighted in a statement issued by the former Indonesian Manpower and Transmigration Minister, Erman Suparno, "Malaysia needs our workers for its oil palm plantations" (Sijabat 2008).

The profitability of Sarawak's oil palm industry is thus heavily reliant on an abundance of cheap and easily managed Indonesian workers. It is estimated that Indonesians comprise 80–90 per cent of the plantation workforce and that a substantial proportion of these are illegal migrants. Indonesian workers in Sarawak are viewed with distrust and there is little regard for their safety or welfare. In order to ease local concerns, Indonesian labourers have few rights and are strictly controlled. They suffer low wages, long hours, and difficult conditions. Legal migrants are generally recruited from the distant islands of the Indonesian archipelago, their passports removed, and their movement highly restricted. Conditions for illegal workers can vary from daily movement back-and-forth across the border to living within plantations under extremely harsh conditions and at risk of severe punishments.

This chapter discusses perceptions of Indonesian labour in Sarawak from the perspective of the government, the oil palm sector, and rural communities; provides a profile of Indonesian oil palm workers in a variety of plantation settings, including their motivations for migration; examines the processes associated with both legal and illegal migration to Sarawak; and considers the experience and perceptions of Indonesian oil palm workers themselves. The data for this chapter were obtained during the course of a larger study of oil palm and rural livelihoods in Sarawak. Seventeen oil palm plantations were visited over the course of a year in 2007–08; visits ranged from a few days to several months. These plantations were located across Sarawak: seven were schemes managed by the Sarawak Land Consolidation and Rehabilitation Authority (SALCRA), seven were managed by the Federal Land Consolidation and Rehabilitation Authority (FECLRA), and three were joint-venture plantations brokered by the Land Custody and Development Authority (LCDA) but managed by private companies (Figure 12.1).

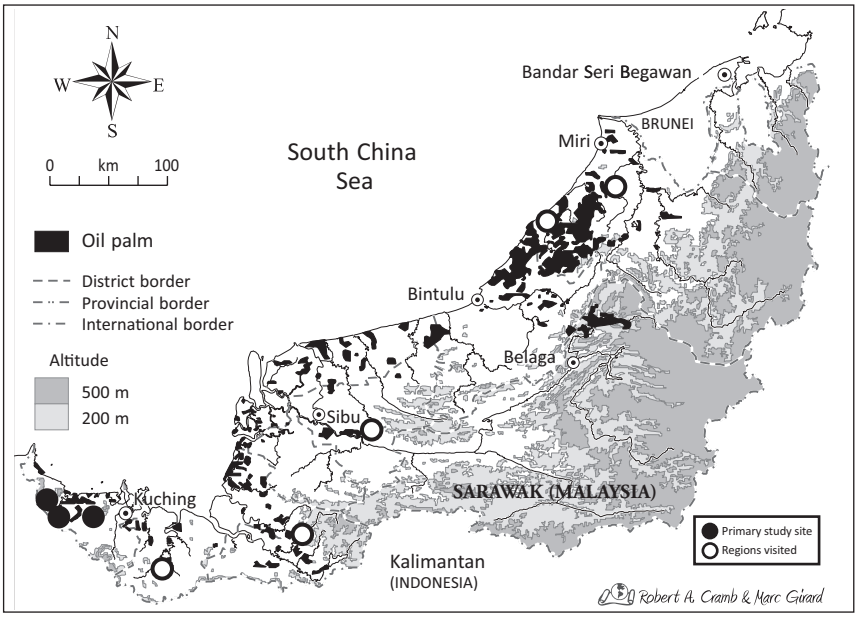

Figure 12.1. Location of study sites in Sarawak. Black dots indicate primary case study sites; white dots indicate sites visited for shorter periods. Base map by Rob Cramb and Marc Girard.

Three primary study sites were selected in the southwest of Sarawak as all major scheme-types could be found there (SALCRA, FELCRA, and a joint-venture between LCDA and the private plantation company Rimbunan Hijau), in close proximity to each other and to the international border. Twenty-five semi-structured interviews were undertaken with Indonesian labourers working in these schemes. Interviews were conducted in Indonesian, generally in the workers' barracks, though a few were undertaken opportunistically in the plantation or in town over a meal. Six women and 19 men, who ranged in age from 21 to 41, were interviewed. Further interviews were also conducted with key informants, including the Indonesian Consul General in Sarawak; officials from the Malaysian Labour Department; Semuja Immigration Detention Centre staff; SALCRA, FELCRA, LCDA, and Rimbunan Hijau scheme officials; plantation managers; and local residents. In addition to interviews and observations, evidence was gathered from government documents, research journals, and newspaper articles.

PERCEPTIONS OF INDONESIAN WORKERS

Government Perceptions

The government rhetoric in Sarawak regarding employment in the oil palm sector has changed greatly over the last two decades. Initially the introduction of plantation schemes on Native Customary Rights (NCR) land was touted as a means to eradicate rural poverty by providing employment opportunities for rural communities and bringing them into the "development mainstream" (SALCRA 2003, 2011; Chapter 6). However, this line has gradually shifted to focus on the increasing need for Indonesian labour. In the mid-1990s, government development agencies like SALCRA reasoned that they were moving to a business model of production rather than one specifically aimed at eradicating rural poverty, hence using foreign labour was appropriate.[2]

Initially, NCR landowners would not allow Indonesian workers on their land, and so began the long process of persuading local communities to accept foreign labour. For example, foreign workers only began harvesting at the Boustead joint-venture project in Kanowit in 2005, a decade after the plantation manager began dealing with labour issues.[3] Before this, the local Iban landowners would not allow it; they simply did not want foreigners working on their land. Similar stories were heard from all plantation managers interviewed. Instead, landowners and communities in many areas had to be persuaded over time to let foreigners work on their land by staff of the Ministry of Land Development and the local Area Development Committees.[4]

As a result of this widespread reluctance to accept foreign labour, the Sarawak government for the last 20 years has largely restricted the plantation sector to recruiting workers from Indonesia due to linguistic and socio-cultural similarities, unlike in the peninsula where workers from Bangladesh and elsewhere have been more readily accepted.[5] This has gradually led to local communities becoming less hostile to the employment of foreign workers. However, the plantation sector has more recently lobbied the Sarawak government to relax this policy to help meet their increasing labour requirements (Borneo Post 2008; Sijabat 2008; Banji 2009), their concerns no doubt compounded by the rapidly growing demand in Indonesia itself for plantation labourers (Chapters 2 and 11).

Industry Perceptions

Labour is one of the main concerns of the oil palm industry in Sarawak. For well over a decade, continued access to an abundant supply of cheap labour has been considered the key limiting factor to the industry's profitability and continued expansion (Ming and Chandramohan 2002). It is evident that the Sarawak oil palm sector clearly prefers to pursue the cheaper and the more abundant supply of Indonesian labourers than local residents, even in those areas where plantation schemes were initially developed to provide rural communities with employment. When I discussed the matter with various plantation managers, it was often said that locals were lazy or found ways to avoid working. As stated by the manager of the SALCRA Jagoi plantation, "*Orang kampung pandai hilang*" (villagers are good at disappearing).[6] The manager of an estate within the Boustead joint-venture plantation in Kanowit stressed that the plantation was constrained by the local Iban not working hard enough. He went on to say that they had "employed two Iban [local residents] to one normal worker [Indonesian labourer]".[7]

However, it was apparent at each study site that landowners had initially not wanted Indonesian labourers on their land, resulting in continued efforts by plantation management to persuade local residents to allow them to employ Indonesians. This persuasion strategy was apparent when I attended a "SALCRA community awareness day" at one of their estates, involving the members of the local SALCRA Estate Development Committee (*Jawatankuasa Pembangunan Ladang SALCRA*, JPLS).[8] The JPLS is the official communication channel between estate management and the landowners and was formed so all participating villages would have representatives at the estate level. This particular committee was mainly made up of elderly men, each of whom was given a bright green SALCRA JPLS shirt, made to pose for photos, and then driven out to an extremely hilly and unkempt section of very tall palms on the estate. They were told to have a walk around and try to cut down old fronds from palms that were 12–15 m tall, using a long harvesting pole with a heavy cutting knife attached. This was understandably an incredibly hard task for each of the elderly men who tried, much to the amusement of all who watched. The SALCRA official told me that, "we bring them here to

show them how hard it will get, that we have to find another way, [and] that we need the foreign workers."

The industry in Sarawak is well aware of the importance of Indonesian labourers and there is a growing concern about their dependence on them. The SALCRA and FELCRA plantations I visited could be considered the "best-case scenarios" for Indonesian labourers in Sarawak, as all plantation management allowed me complete freedom of access to information and movement around the estates throughout the course of my fieldwork. Yet even here Indonesian labourers had their passports removed and were strictly controlled in an attempt to stop them from absconding and keep local communities at ease. Nevertheless, it quickly became apparent during interviews with plantation managers that, where once Indonesian labourers were extremely isolated, now with the aid of mobile phones, they are able to compare their working conditions with family and friends throughout Sabah, Sarawak, and Peninsular Malaysia. This can enable them to put pressure on estate management for higher wages and better conditions or help them avoid plantations where work is more challenging. As expressed by a senior FELCRA official, "in the past the frog was under the coconut, but the problem is that now the frog has a phone."[9] Several FELCRA plantations visited had great difficulty in retaining labour due to the extremely hilly nature of the plantations. Another FELCRA official elaborated by saying, "Indonesians are cluey, they ring their friends to say don't work in hilly areas".[10]

Community Perceptions

There is a general distrust of Indonesians in Sarawak and, in some cases, even fear. After spending a number of years in Indonesia, I was confronted by how Indonesians were viewed in Sarawak. Two passing comments at the beginning of my fieldwork highlighted this. The first was by a prominent Iban academic, well known for advocating Dayak rights: "You cannot trust the Indonesians, there are a lot of Indonesians;"[11] the second was in the village of Opar: "*Jangan masuk hutan di bukit sana! Penuh dengan orang Indon!*" (Do not go in the forest on those hills! They are full of Indonesians!).[12] It was common to hear such statements. In the village of Selampit, while conducting a household interview, when the topic turned to Indonesian labour, the

respondent's wife kept quietly repeating, "*Saya takut orang Indonesia, saya takut orang Indonesia, saya takut orang Indonesia*" (I am afraid of Indonesians).[13]

In the villages, such comments were generally made by people who had little or no contact with Indonesian labourers. Instead, their opinions were largely formed by the media's coverage of Indonesians in Malaysia. Whenever Indonesians were featured in the media it was generally associated with theft, rape, prostitution, loss of local labour oportunities, or illegal migrants. Articles about legal migrant workers were often sensationalised, such as one about legal foreign workers being certified as fit without any examination (Selvarani and Vijaindren 2008). The article stated, "This is why we have so many cases of infectious diseases such as malaria and tuberculosis, which have been eradicated or reduced decades ago". However, the deputy director-general of the Health Ministry, Datuk Dr Ramlee Rahmat, also cited in the article, shifted the focus onto illegal Indonesian migrant labourers again, "We are not as worried about the legal foreign workers in the country as we are the thousands of illegal workers here who may be carrying highly infectious diseases" (Selvarani and Vijaindren 2008).

A PROFILE OF INDONESIAN WORKERS

Diverse Characteristics of Migrants

The term *Tenaga Kerja Indonesia* (TKI) seems to imply that the people migrating to Sarawak to work in the plantation sector are a single homogenous group. This stereotype was often highlighted in both the media and passing conversations with Sarawakians. However, Indonesia is an ethnically rich and diverse nation. The Indonesian archipelago stretches over thousands of inhabited islands and supports a population of 247 million (Chapter 1, Table 1.1), many of whom come from vastly different backgrounds in terms of language, culture, and religion. Even though well over half of this population lives on the island of Java, also home to the largest ethnic group, the Javanese, it is still an immensely diverse and culturally rich nation. While Indonesian is the country's official language, it is estimated that around 550 different languages are spoken (Sneddon 2003). Despite having the world's largest Islamic population, with over 85 per cent of Indonesians self-identifying as Muslim, large numbers identify with other religions that are also recognised by the state (Badan Pusat Statistik

2011). As such, depending on the origin of an Indonesian migrant labourer, their religion, culture, and first language may be completely different to that of other Indonesians working on an oil palm plantation in Sarawak.

In all 17 plantations visited, recruiting Indonesian labourers from multiple distant islands, rather than from neighbouring Indonesian provinces like West Kalimantan, was the standard practice. This recruitment strategy essentially binds the labourer to the plantation for an extended period, because the journey home is both too expensive and time consuming. The 25 Indonesian labourers interviewed came from six different islands—Java (4), Sulawesi (6), Lombok (5), Flores (6), Sumbawa (2), and Timor Leste (2, who still identified themselves as Indonesian). They spoke six different languages and were either Muslims (19) or Catholics (8). They ranged in age from 21 to 41 years, with most were in their late 20s to late 30s. Six of the 25 were women who had followed their husbands. Education levels varied from no schooling to a full senior high school education. However, the majority (14) had only completed elementary school (*Sekolah Dasar*). All 25 had entered the country legally and were in secure positions within the plantation. Even from this small sample, it is clear that *Tenaga Kerja Indonesia* working in Sarawak's oil palm plantations are culturally and ethnically diverse.

In each plantation visited, the Indonesian labourers came from a range of different islands and ethnic groups. There was not one estate that had labourers who were all of the same ethnic background. At first, this just seemed to be what agents were able to provide, but the Indonesian Consul General gave an insight into why this appeared to be a standard recruitment practice:

> *Suku-suku di Indonesia punya sifat-sifat sendiri, seperti sifat masing-masing lain* [the ethnic groups of Indonesia each have their own characteristics, like traits that are each different]. That's why they also tend to mix [TKI on plantations]. Because if they are all from Eastern Nusa Tenggara, or from Kupang, that would be difficult to manage because they tend to drink hard. If from Lombok or West Nusa Tenggara, they will run away. If all Bugis, there will be problems with their *adat-lah* [customs]. And these problems, people die from that. So that is why they [plantation managers] tend to mix [workers]. So within the companies they should have all the ethnic groups. And that is why they should have some Javanese, for a balancer. There are not as many, because Javanese work less hard.[14]

The policy of recruiting from distant islands appeared to benefit the plantations visited, as all 25 interviewees stated that they would not return home (*pulang kampung*) for at least the first two years of their contract. Furthermore, some of the longer-term Indonesian labourers interviewed had not returned home for over six years, as both the time and cost involved in returning were beyond their means. This was compounded by the fact that all had gone into debt to get their plantation positions even before they had left Indonesia. The majority of interviewees had travelled across multiple islands to reach Sarawak. The two migrant labourers from Timor Leste had a ten-day journey to reach Sarawak and said that they would not be able to return home until their contracts had expired.

The previous employment of all 25 workers was relatively low-paying compared to what they could earn as labourers in Sarawak plantations. For 16 of the 25, it was the first time they had worked in Malaysia, whereas the other 9 had previously worked in different plantations. Before working in Malaysia, the most common occupations were farmers (11), housewife (5), or working in transport (3). Other employment included sewing, factory work, a tourist cook, and work in the timber industry. It also appears that as other employment sectors, such as the timber industry, began to decline in Indonesia, working for the Malaysian oil palm industry was the next choice.

Reasons for Migration

Few employment opportunities, limited access to land, and overpopulation have led to international labour migration increasing throughout the archipelago. While individual reasons for choosing this livelihood strategy may vary slightly, each is based on the hope of earning more money abroad. When talking to different Indonesian labourers about how working conditions were back in their home village, the following comment was quite common, "*cari makan sehari-hari saja*". In the traditional non-wage labour context, this saying literally means "to look for enough food to eat each day", but now it generally implies a combination of earning enough money to buy staples and also utilising what you have grown yourself (e.g., rice, vegetables, fish). A more colloquial translation would be, "Just living from day to day". This was also highlighted by the response "*cukup makan*" (getting enough to eat) when asked about how their wages were back home.

When asking Indonesian labourers about why they chose to work in a Malaysian oil palm plantation, the reasons appeared to be less about "choice" and more that the opportunity simply presented itself. This "opportunity" in most cases was a labour agent arriving regularly to their provincial centre or village. Even those who said they chose to follow a husband, brother, or friend also generally used the same agent. The agent utilised appears to be pivotal to how their working life overseas will actually unfold. It became clear that work in the Malaysian oil palm sector, as hazardous as it is, is seen as a better-paying, safer option than other labour opportunities abroad. When asked, "How does work in oil palm compare to other jobs in Malaysia?", the general reply was "*lebih senang*" (easier). The only real alternatives for men looking for work abroad are in the logging or construction sectors, both of which respondents said had a higher risk of injury and a lower wage. For the male migrants, oil palm labour was generally viewed as less dangerous compared to the risks involved in logging. As a senior SALCRA official remarked about Indonesians working in the timber industry in Sarawak, "*Mati seperti kodok* [they die like frogs] and then are just bulldozed into the ground."[15]

The preceding comments relate primarily to why men become oil palm labourers. However, we must also consider why a woman would make the same choice. While I met no single women working in the plantations visited, it appears that an increasing number of wives are following their husbands to Malaysia. In some respects it seems a harder choice for a married woman to leave her children behind for a prolonged period, especially given the traditional role of women in Indonesian villages. Ani was 22 when interviewed in 2008, and had made her own way from Lombok to meet her husband who was already working in the plantation (Figure 12.2). She was a housewife back in her village and now works collecting loose palm nuts from the fresh fruit bunches that her husband harvests. She left her two young sons with her mother and often spoke of how terribly she missed them. She had already been in the SALCRA Jagoi plantation for a year, and would not return home for at least another year. When asked how she felt about the work she replied, "*Itu panas sekali dan banyak duri, tetapi harus ikut suami*" (it is very hot and there are lots of thorns, but I must follow my husband).[16] Ani and her husband shared a barrack with Girni and her husband, who was also from

Lombok. Girni was 33 at the time of being interviewed and had followed her husband to work in Malaysia, again leaving her two children with their grandmother. However, this was Girni's third contract working in a Malaysian oil palm plantation and she chose it because it was easy to obtain. When asked why she would choose to leave her children for such a long time (almost five years in total) she replied, "*Mau cari uang lebih, kalau di kampung cukup di makan-makan saja*" (I wanted to look for more money, in the village it's only enough to eat).[17]

THE LABOUR MIGRATION PROCESS

Role of Agents

Agents are one of the main driving forces of Indonesian labour migration to Malaysia. There are numerous legal and illegal agents operating on both sides of the international border. Often the illegal system

Figure 12.2. Ani, who followed her husband from Lombok to work in the SALCRA plantation at Jagoi (Photo: Sunny Sanderson)

operates quite openly, is well organised, and is more adaptable than the legal one. There are over 400 registered labour agents in Indonesia and 30 in Sarawak; however, this appears to be only a fraction of the number of illegal agents.[18] During an interview with the Indonesian Consul General in Kuching, he asked me to stand and look out of his office window and pointed out an illegal agent's office that was busily operating just across the road.[19]

Each plantation worker interviewed arrived in Sarawak with an agent. In the majority of cases, an agent recruited the workers in their village and had repeatedly visited to try and obtain more workers. These recruitment agents entering the village were both local and from different regions. In many cases, the interviewee already knew someone who worked in Malaysia, so they felt a little more secure about making the journey for the first time. However, the six respondents from Flores had made their own way to the small Indonesian island of Nunukan, situated near the border with Sabah, which is also an official immigration entry point for Sabah. They said that they waited at a known gathering area until an agent came and took them to various plantation companies in Sarawak. In most cases, interviewees were not informed where they would be going and only knew that it would be to work on oil palm in Malaysia.

The amount paid to agents was not consistent and ranged from IDR 1.5 million to IDR 3 million (Table 12.1). Most Indonesians surveyed had borrowed money from family, friends, neighbours, or the agent to cover these expenses, which was generally paid back with interest. For example, the two men from Timor Leste borrowed IDR 1.5 million to pay their agent and were required to pay back IDR 3 million within six months, implying an annual interest rate of 200 per cent. Such interest rates were not uncommon; the two men recruited from Sumbawa borrowed IDR 2.5 million and had to pay back IDR 5 million within one to three years. They were in debt even before they left their village and became more indebted once they reached the plantation in Sarawak, where the government levy and the plantation's recruitment cost were incurred.

Legal Labour Migration

The figures for the number of legal Indonesian migrant labourers in Sarawak vary widely—from 112,000, according to the Immigration

Department, to 169,000, according to the Labour Department.[20] However, the same Labour Department official who gave this figure added that the legal figure was "just the tip of the iceberg; actually for us there is no way to know."[21] Considering the importance of Indonesian workers to the plantation sector, it is worrying that there is little consistency in figures between the departments. Even the Indonesian consul general in Kuching stated that there was no consistency in the figures given to his office by Malaysian government departments.[22]

Table 12.1. Amount paid by 20 Indonesian workers to agents to gain employment in the Malaysian oil palm sector

Origin	*Sex*	*Recruited by*	*Cost (IDR)*	*Borrowed from*	*Amount borrowed (IDR)*	*Amount to repay (IDR)*	*Time to repay loan*
Sumbawa	M	Agent	2,500,000	Villager	2,500,000	5,000,000	
Sumbawa	M	Agent	2,500,000	Villager	2,500,000	5,000,000	1–3 yrs
Timor Leste	M	Agent	1,500,000	Villager	1,500,000	3,000,000	6 mth
Timor Leste	M	Agent	1,500,000	Villager	1,500,000	3,000,000	6 mth
Sulawesi	F	Agent	3,000,000*	Friend	3,000,000	4,000,000	
Sulawesi	M	Agent	2,500,000				
Flores	M	Agent	1,000,000	Neighbour	1,500,000		1 yr
Flores	M	Agent	1,000,000	Older sibling	1,000,000		
Flores	M	Agent	1,500,000	Family	1,500,000	3,000,000	
Flores	M	Agent	1,500,000	None			
Flores	M	Agent	1,000,000	Neighbour	1,500,000		
Flores	M	Agent	1,000,000	Family	1,500,000		
Lombok	F	Broker	4,500,000*				
Lombok	F	Agent	1,500,000				
Sulawesi	M	Agent	2,300,000		2,000,000		
Sulawesi	F	Agent	1,650,000				
Java	M	Agent	3,000,000				
Java	F	Agent	1,500,000				
Java	M	Agent	3,000,000				
Java	M	Agent	3,000,000	Agent	2,000,000		

* Indicates amount paid to an agent for a husband and wife.

The legal recruitment process for Indonesian foreign labourers lags behind that of the illegal system, which is more flexible in adapting to the increasing demand for labourers. The legal system is also a far more drawn-out and costly process, as explained by a senior official from SALCRA's Labour Department.[23] First, the plantation company

must establish that no locals want the position. To do this they must advertise a walk-in interview in both English- and Malay-language newspapers on a Sunday. They must also have a radio advertisement, which is to be announced three times over one day. The walk-in interviews must be held one week after the advertisement at the respective divisional office. He also pointed out that no one comes to the interviews, "We have been doing this but no locals are interested, but anyway that is the requirement of the law, the Labour Department. Walk-in interview, no one comes, zero. Only then, because it is proven no locals are interested do we apply to the Labour Department for the Approval in Principle. SALCRA's licence only allows them to recruit Indonesians."[24] The Labour Department confirmed that, by law, plantation companies are required to advertise any available position so that a local may apply for it first.[25] However, in reality, these advertisements appear to be a formality as attending a walk-in interview at a specific time in the respective divisional labour offices is not easy to do if you live in a rural village in Sarawak.

Next, the plantation company must obtain an Approval in Principle (AP) from the Labour Department. Only when this is obtained can the company or agency seek out a recruiting agent to obtain Indonesian labourers. The Labour Department official also stated that they do not know what the process is on the other side of the border in Indonesia, except that it is expensive.[26] The agent then gives the plantation company a copy of the labourer's passport so that the company can obtain an initial entry pass. Once obtained, the company fetches the labourers from the border crossing point. Next, they are given a health check to determine if they are fit to work; if not, they are returned to the agent. If they pass the health check, they are put onto an initial two-year contract, during which they are not allowed to leave the plantation. After that, they have the option to extend for another two years, then one further year, and then they must wait for six months before applying again.

The fees and other financial arrangements varied widely at each site visited. For SALCRA plantations in 2008 they were as follows. First, the agent's recruitment fee was MYR 1,800 per worker, but only after the worker had passed the health check. The agent would get 70 per cent of the fee on arrival, and the remaining 30 per cent was only paid after three months. If the labourer absconded, then the full amount was recoverable from the agent. Second, of the MYR

1,800 agent's fee, MYR 450 was deducted from the labourer's wages as "administrative costs" over 22 months. Third, a government levy of MYR 540 (other companies said it was MYR 650) was also deducted from the Indonesian labourer's wages at MYR 45 per month. Fourth, a security bond of MYR 350 was also required from the worker.[27] If any Indonesian labourers arrive at a SALCRA plantation looking for work without the proper documentation, SALCRA must first hand them over to a recruitment agent. The SALCRA official also stressed that the agency could not get enough workers as competition for them had become intense.[28] While I was informed by both SALCRA and FELCRA officials that they used to recruit illegal labourers, once government policy changed and fines were introduced, both stopped this practice. However, during the course of fieldwork, SALCRA had begun to send their "good workers" back to their home villages to recruit more people.[29] This method is most likely being used because workers are more likely to follow a friend or relative than an unknown labour agent. However, it is a practice that I was earlier informed was illegal by an official at the Labour Department.[30]

In 2008, during the course of this research, the agent recruitment fees paid by SALCRA and FELCRA for one legal Indonesian labourer ranged from a MYR 995 to MYR 2,000. However, an illegal Indonesian labourer, such as those met on the Rimbunan Hijau joint-venture plantation in Lundu, may have only cost MYR 200–300, which was reportedly paid to an agent on an unofficial border crossing (*jalan tikus*, or rat trail).[31] When considering the differences in costs and time, it is apparent why some plantation companies chose to use illegal Indonesian labourers, who are also far more abundant than legally recruited Indonesian labourers.

Illegal Labour Migration

The international border between Sabah and Sarawak in Malaysian Borneo and West, East, and North Kalimantan in Indonesian Borneo runs through some of the island's most remote and thickly forested terrain. It was first drawn up in the nineteenth century by the Dutch and the British and had little relevance to the Dayaks who regularly crossed back and forth on well-worn paths between villages that existed long before it was determined (Obidzinski et al. 2006). Stretching over 1,840 km, it has few official border crossing points (Ministry of

Forestry 2005; Obidzinski et al. 2006). In Sarawak, there are only two official border-crossing points (Figure 12.3). However, it does have numerous *jalan tikus* (rat trails) scattered all the way along it. These "rat trails" range from one-off paths and traditional walking trails to roads large enough to accommodate trucks laden with all manner of smuggled goods, including timber, wildlife, petrol, produce, and people. *Jalan tikus* have become so well used that a senior immigration official in Sarawak joked that they are "*lebih seperti jalan gajah!*" (more like elephant trails!)[32] This comment referred to the rapidly increasing numbers of illegal immigrants and smugglers over the years, no doubt helped by the limited border controls (Irene 2009).

In 2006, the Indonesian secretary-general of the Manpower and Transmigration Ministry, Harry Heriawan, stated that hundreds of thousands of Indonesians work illegally in Malaysia (*Jakarta Post* 2006). He estimated that 1.2 million of the 1.7 million Indonesians

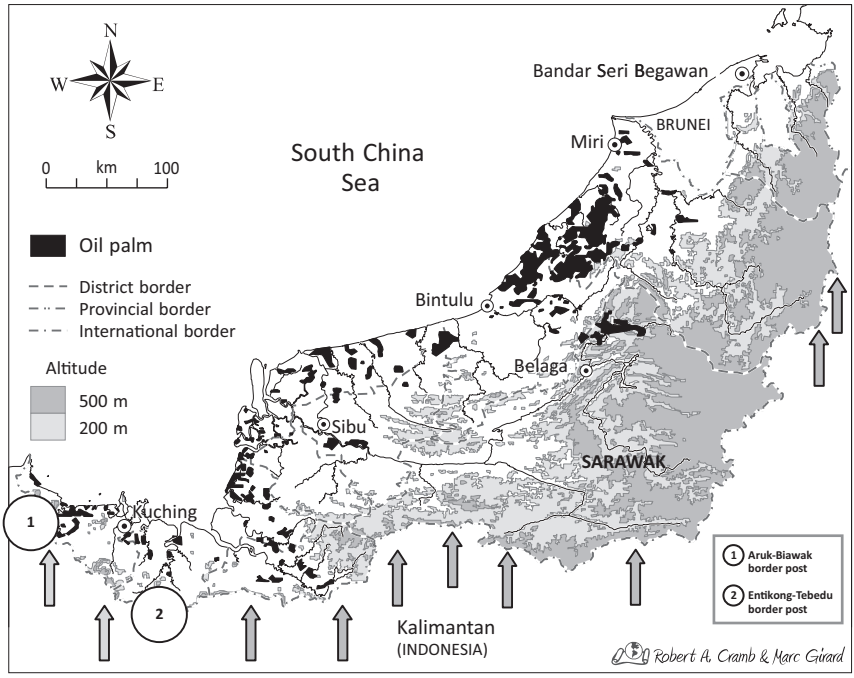

Figure 12.3. The porous border. There are two legal border posts and numerous possible illegal crossing points. Base map by Rob Cramb and Marc Girard.

in Malaysia at that time were there illegally. There appears to be no set path for legal or illegal Indonesian migrant labourers, and they may switch back and forth between the legal and illegal systems (Figure 12.4). For example, some Indonesian labourers may follow a legal recruiting agent all the way from their home village to the plantation in Sarawak. Others may arrive at the Malaysian border and cross illegally, but still obtain labour in a plantation that secures their permits. Others still may be bounced back and forth across the border in a circuit of illegal entry, detention, deportation, illegal entry, and so on. The risk of detention for Indonesian labourers travelling without the proper documentation is high, as both police and local volunteer groups (RELA) are keenly on patrol. RELA (*Ikatan Relawan Rakyat Malaysia*, Volunteers of Malaysian People) comprises local citizens who receive MYR 8 per hour to look for "illegals".[33] While RELA had supposedly been disbanded, it was rumoured during the course of fieldwork that former RELA members were being paid a bonus for each illegal labourer they brought in. During a visit to the Serian Detention Centre (*Depot Pendatang Tanpa Izin Semuja*), in response to a question about whether the number of Indonesian illegal migrants caught was increasing, the guard replied, "*Kadang-kadang macam banjir*" (Sometimes it's like a flood).[34] When further asked how they coped with such a sudden intake of illegal Indonesian workers, he replied, "*Cepat proses!*" (Process them quickly!).

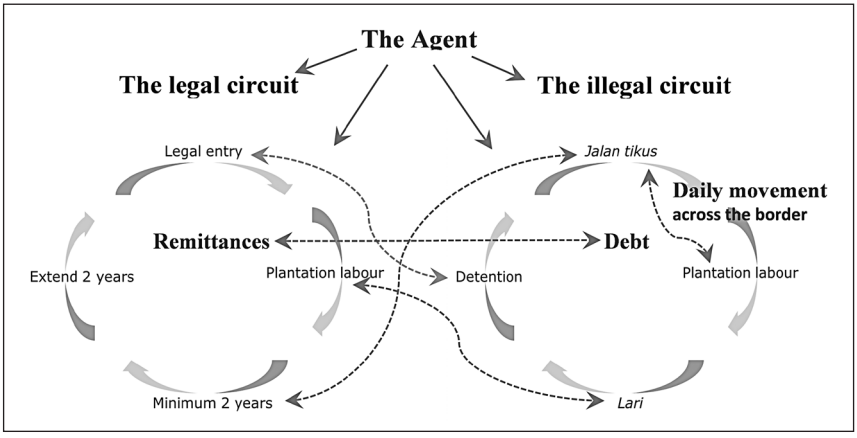

Figure 12.4. Legal and illegal labour circuits for Indonesian workers in Sarawak (*jalan tikus* = illegal border-crossing; *lari* = to abscond).

All applications for foreign workers in Sarawak must be processed by the Malaysian Immigration Department, which has the motto of "friendly, trustworthy, and firm service with a smile" (Department of Immigration Malaysia 2008). Yet this is hardly the greeting for illegal migrant labourers if detained. Under Section 6(1)(c) of the list of offences under the Immigration Act 1959/63 and the Passport Act 1966, the punishment for entry and stay in Malaysia without a valid pass or permit is a "[f]ine not exceeding MYR 10,000 or imprisonment for a term not exceeding 5 years or both, and liable to whipping of not more than 6 strokes" (Department of Immigration Malaysia 2008). While this punishment is generally reserved for repeat offenders, the initial process in Sarawak is as follows: (1) On first arrest, after a period of detention, they are transported to the Indonesian-Malaysian border post at Entikong-Tebedu, where they are deported to Indonesia. (2) If arrested again within six months, the penalty is six months detention and one stroke of the cane. (3) If arrested again within nine months, the penalty is six months detention and three strokes of the cane. (4) If arrested again within one year, the penalty is one-year detention and six strokes of the cane.

Indonesian labourers who have been deported have few choices, especially if they are already in debt to the agent who initially brought them to Malaysia. One option is to return to their home village in Indonesia. However, because Malaysian plantation companies favour recruiting Indonesians from remote provinces, such as from the islands of Nusa Tenggara Timor, they will have difficulty in returning home due to the large cost involved. Hence the alternative option, which an officer of the Serian Detention Centre told me was the most commonly chosen, is to cross back over the porous border illegally via *jalan tikus*.[35] If detained again, the penalties escalate, as noted above. Hence headlines like "Man gets four months' jail, whipping for illegal entry" are common (*Borneo Post* 2010). The accused in this case was a 23-year-old plantation worker from South Sulawesi who was arrested during a police road block at 10.40 pm when he failed to produce a valid travel document. He was whipped three times and imprisoned for four months (*Borneo Post Online* 2010).

However, the illegal labour system is often easier to navigate than the legal one. To use it has the added incentive for plantation companies in that they do not have the high upfront costs of recruiting legal Indonesian labourers and, given the workers' insecurity, can pay

them even lower wages. Attempts to police illegal Indonesian labour recruitment in rural oil palm plantations is difficult, and in many cases unfeasible. Some plantations visited, like the Rimbunan Hijau joint-venture project at Lundu, were seen to employ both legal and illegal workers, with different payment systems in place for each. In border plantations like those in Lundu, some Indonesian workers simply came across the border each day to work, and if police arrived, they merely ran back across the border.[36] However, this is also a risky strategy for the labourers, because if they are caught they will end up in detention, and repeat offenders often receive the canings discussed above. Pye et al. (2012) argue that this dual (legal/illegal) labour system is actually embedded in the politics of the oil palm complex because it provides plantation companies with "flexibility" in their hiring and firing of workers. However, "flexibility for the estate managers translates to insecurity for the workers" (Pye et al. 2013: 333). The dual system also persists because in some respects, it meets the needs of migrant workers who are willing to take the risk, providing more employment opportunities than would otherwise be the case and enabling them to slip between the two systems to their advantage (Figure 12.3).

LIFE IN THE PALMS

Working Conditions and Rights

Indonesian workers on Sarawak's oil palm plantations exist in a harsh environment and are strictly controlled. Despite being a vital part of the Malaysian plantation sector, their rights are severely limited. Fear of arrest, long hours, a hazardous working environment, poor living conditions, passport removal, isolation, and travel restrictions are just some of the issues faced. However, there is almost no protection and little recourse for Indonesian labourers in Sarawak if they are mistreated or have disputes with their employers. In Peninsular Malaysia, there is the National Union of Plantation Workers, with mainly Malaysian Indian members (India-Malaysia Online 1998). Formed in 1954, its main aim was to improve the conditions of plantation labourers. However, no such union exists to ensure that Indonesian labourers receive fair treatment on plantations. Instead, all aspects of an Indonesian worker's life in Malaysia appear to be dependent on

their employer. Furthermore, any disciplinary action is also at the employer's discretion. As stated by the former Chief Minister, Abdul Taib Mahmud, at a Sarawak Business Summit, "If these migrant workers are not behaving well or productive enough, it's up to the employers to deport them" (*Borneo Post* 2009). What awaits them on the other side of the border is of little concern to the Malaysian authorities. The only initiative for Indonesian labourers seen throughout the course of this fieldwork was a "helpline" set up by the Indonesian Consulate in Kuching. However, it had received little publicity, and the Consul General even asked if I would distribute some of the small stickers to workers in the plantations I visited.[37] In Indonesian, the stickers said simply:

Complaints.

Consulate General of the Republic of Indonesia.

Phone/SMS: 0198222110

The working conditions observed in the SALCRA and FELCRA plantations visited were quite similar. It was standard practice on all plantations that passports and work permits be held by plantation management. When I asked the workers why management kept their passports, a common response was, "*Saya tidak tahu, mungkin takut kita lari*" (I don't know, maybe they are afraid we will run away). The main difference between these sites was the terrain; the steeper the terrain, the harder it was for an oil palm estate to retain labourers. On FELCRA's Gayu plantation I was informed that there were only two Indonesian workers left out of 27. The rest had absconded due to the very steep terrain, which made working conditions extremely difficult and in some areas, hard to even stand up.[38] The management had to resort to asking the local villagers for help in harvesting while waiting on another 15 Indonesian labourers to arrive. On the Rimbunan Hijau joint-venture plantation in Lundu, the working arrangements were more varied. This was primarily because they also employed illegal Indonesian labourers. During the course of field research, 83 of the illegal Indonesian labourers were arrested in a single police raid and jailed in Kuching.[39] It was said that, generally, when the police came the illegal labourers would just run back across the border or

hide in the palms, but the 83 Indonesians were not so lucky on this occasion.

Wages were paid once a month on each of the plantations according to the cultivation phase the labourers worked in. Each labourer was required to give their thumbprint in order to get their wages. At the SALCRA Jagoi plantation, these "pay days" had a festive atmosphere, with numerous small vans waiting outside selling bread, colourful cakes, soft drinks, vegetables, fish, and clothes. The local shop owners were also waiting to collect payments for the debts that Indonesian labourers had accrued over the previous month. All Indonesian labourers interviewed had varying levels of debt. Some had so much debt that they were no longer able to send remittances home, though this was the main reason given for choosing plantation work in the first place. At the Rimbunan Hijau joint-venture plantation, "pay day" was quite different. There was a clear division between the legal and illegal labourers. Illegal labourers did not get paid at the main office like the legal labourers; instead they were "paid amongst the palms" by their field supervisors.[40] It was also the only day in the month when legal workers were given written permits to go to the district town of Bau (Figure 12.5). On spending the day with a group of Indonesian labourers heading to town, the importance of mobile phones and of finding ways to supplement their income became apparent. In town, the main aim of many of the Indonesian labourers was to buy phone cards. One brother and sister from the Rimbunan Hijau plantation bought MYR 1,470 worth of phone cards at MYR 10 each; they would then sell them in the estate for MYR 12 to supplement their wages. On the SALCRA plantations, Indonesian labourers were allowed to go to town twice a month.

Living Conditions

There are no official standards for the living conditions of Indonesian labourers in Malaysia; the standard of accommodation is dependent on each individual company.[41] Housing on the plantations was in barracks. These ranged from simple wooden structures on the Rimbunan Hijau joint-venture plantation to sturdy brick constructions on some of the SALCRA plantations. Accommodation blocks mirrored the different islands from where the Indonesians had come from: one plantation had a Sumbawa barrack, a Lombok barrack, a Sulawesi

Figure 12.5. Indonesian workers from the Rimbunan Hijau plantation in Lundu on the bus to Bau on their monthly "pay day" (Photo: Sunny Sanderson)

barrack, and so on. Each barrack only had people from the same island in residence; in some cases, they all came from the same village. The primary reason for this was differences in language and religion between workers from the different islands.

In one of the SALCRA plantations, food was purchased either during trips to town or by phone from shops in the local village that delivered to the barracks. The Rimbunan Hijau plantation had a canteen for workers to purchase supplies but the prices were extremely high compared to those in town. During my time at this plantation, there were protests over water shortages in the barracks. However, such protests were swiftly dispersed, sometimes with the aid of hardwood batons (Figure 12.6). In all plantations visited, male Indonesian labourers hunted for game; in a number of cases this included protected species such as the pangolin. Other animals hunted included bats, fish, snakes, squirrels, frogs, macaques, and numerous bird species. As one Indonesian labourer put it, "we use the protected species posters as a menu and catch whatever we can."[42] Both women and men gathered vegetables or fished in the stream running through the

plantation, raising a question about prolonged exposure to pesticides and herbicides.

There were children living on the Rimbunan Hijau joint-venture plantation and they were seen to be helping their parents in the plantation during the day. One seven-year old boy I spoke to had lived there for three years and had never attended school. His mother was very proud that he was "*pandai main HP dengan orang kampung*" (clever at phoning people in the village). While state-run plantation development schemes in Sarawak such as those managed by SALCRA do not allow children to live on the plantations and ensure that women return to Indonesia if they become pregnant, private plantation companies such as Rimbunan Hijau are not under the same scrutiny. The government does readily recognise that there are children on plantations and that there is a serious lack of facilities for them. Under the Ninth Malaysian Plan, the Sarawak Labour Department allocated funding to develop childcare centres for plantations to cater for children aged four and below (Ringgit 2007). However, these were targeted at the children of local workers, whereas the vast majority of labourers are Indonesian.

Figure 12.6. Truncheons outside the office of a Rimbunan Hijau joint-venture scheme for when "disputes" arise with Indonesian labourers (Photo: Sunny Sanderson).

Health and Safety

Harvesting fresh fruit bunches from mature oil palms is both labour-intensive and dangerous. Add to that working in areas with steep and hilly terrain and the possibility of injury greatly increases. Medical help was often far from the plantations and illegal workers would not generally risk being caught in order to seek medical help. As stressed by a 38-year-old male Indonesian labourer from Sumbawa, "*Kalau sakit tidak ada pas, tidak pergi ke klinik*" (if you are sick and don't have a pass, you don't go to the clinic).[43] The regional hospital closest to two of the case study sites was visited and access to the emergency registrations book was obtained (Table 12.2). A total of 87 Indonesians were admitted to the emergency ward over a ten-month period in 2008. In almost all cases, any Indonesian admitted had come from an oil palm plantation. Of the 59 male Indonesian emergency ward patients, 23 had laceration wounds. Harvesters are required to cut fruit bunches from palms that can be up to 20 metres tall and weigh over 50 kilograms. These bunches are cut down with a large, sharp sickle attached to a long wooden pole. There is a strong risk of injury when working with these sickles or machetes. The hospital records showed that the laceration wounds were to the "knee, left leg, left arm, right toe, forehead, ear, ankle, leg, finger, rib, tendon, head, thigh, and groin". Acute abdominal colic, malaria, soft tissue injuries, backaches, fever, and throat infections were just a few of the other ailments to male Indonesian labourers. Female Indonesian labourers appeared that afflicted have a different set of ailments, possibly due to the different work they do in the oil palm plantations. In some cases, it was found that these jobs included spraying chemicals like paraquat, a herbicide that is banned in 32 countries (*Chronicle* 2013). Some ailments may be a sign of such work: throat infection, allergic reaction, asthma, and skin rash (Table 12.2). These emergency ward records also provide a chilling insight into the general difficulty and risks involved in working on oil palm plantations.

CONCLUSION

In most debates about the expansion of oil palm in Sarawak, much of the attention has focused on the land rights and livelihoods of rural Sarawakians. The importance of the Indonesian labour force is

Table 12.2. List of ailments suffered by Indonesian patients admitted to Lundu Hospital, January–October 2008

Male	*Complaint*	*Female*	*Complaint*
23	Laceration wound	9	[Illegible]
5	Acute abdominal colic	4	Throat infection
4	Foreign body	2	Allergic reaction
4	Malaria	2	Hypertension
2	Acute gastroenteritis	2	Malaria
2	Fever	2	Tonsillitis
2	Soft tissue injury	1	Acute gastroenteritis
1	Appendicitis	1	Asthma
1	Backache	1	Backache
1	Conjunctivitis	1	Broken limb
1	Crash injury	1	Fever
1	Ear pain	1	Generalised body weakness
1	Eye injury	1	Hyperpyrexia
1	Headache	1	Laceration wound
1	Muscle pain	1	Miscarriage
1	Neonatal jaundice	1	Phenomena
1	Throat infection	1	Pneumothorax
1	Urinary tract infection	1	Skin rash
		1	Snake bite
53 males	Total	34 females	Total

Source: Lundu Hospital Emergency Ward admission records for January–October 2008.

acknowledged, but the characteristics, motivations, and circumstances of Indonesian workers in Sarawak are rarely considered. Rather, they are treated like a homogeneous mass, strictly controlled and isolated in oil palm plantations where labour conditions are hazardous. The process of recruiting and delivering migrant workers to Sarawak is well established and hinges on the role of Indonesian agents. Driven by chronic poverty in their home villages, these migrants travel long distances and incur significant debts, effectively locking them into long-term plantation labour.

The boundary between legal and illegal migrants is blurred and dynamic. Some workers who arrive legally abscond to plantations with better working conditions, thereby becoming illegal labourers. Others who arrive without proper documentation are illegally processed by

plantation agencies keen to acquire their services, and thereby shift into the status of a legal labourer "through the back door". The porous nature of the international border between Sarawak and Kalimantan also complicates the process, with some illegal labourers moving regularly back and forth across the border to avoid arrest. Nevertheless, illegal workers are still highly vulnerable to arrest, severe punishment, and deportation.

The living and working conditions of Indonesian labourers on Malaysian oil palm plantations leaves much to be desired. It is essential that both the government and the private sector work together to ensure that migrant workers are not exploited. While some agencies are striving to improve conditions, others show little regard for migrant workers. As the labour market in the Sarawak oil palm sector tightens, the bargaining ability of Indonesian workers may improve. However, the Sarawak government's decision to look further afield to recruit impoverished workers from other countries like Bangladesh suggests that reducing costs, and not improving the conditions of international migrant workers, is the main motivation.

NOTES

1. Comment about Indonesian migrant workers during interview with senior official at FELCRA head office in Kuching, 6 May 2008.
2. Interview with a senior SALCRA official, 30 Nov. 2007.
3. Interview with an estate manager of the Boustead-Pelita joint-venture, Kanowit, 27 Nov. 2008.
4. Interview with senior official at Ministry of Land Development, Kuching, 27 Nov. 2007.
5. Interview with staff in SALCRA's Labour Department, 29 Oct. 2008.
6. Comment made by the SALCRA-Jagoi manager at a scheme meeting, 16 May 2008.
7. Interview with Boustead Kanowit plantation manager, 27 Nov. 2007.
8. SALCRA awareness day held at the SALCRA Jagoi Estate, 16 May 2008.
9. Interview with senior official at the FELCRA head office in Kuching, 6 May 2008.
10. Site visits to the FELCRA Padawan area estates, 29 May 2008.
11. Visit to the Universiti Malaysia Sarawak, 22 Apr. 2008.
12. Comments made during a lunch while living in the village of Opar, 10 May 2008.
13. Household interview 19 in the Selampit case study, 12 Oct. 2008.

14. Interview with the Indonesian Consul General at his office in Kuching, 18 Aug. 2008.
15. Comment made during a car trip between SALCRA plantations with senior SALCRA official, 12 Dec. 2007.
16. Female Indonesian labourer was interviewed while working in the SALCRA Jagoi plantation, 16 May 2008.
17. Interview with female Indonesian labourer on her break from collecting seeds in a SALCRA plantation, 16 May 2008.
18. Data obtain during a meeting with the Indonesian Consul General in Kuching, 18 Sept. 2008.
19. Observation was made during a meeting with the Indonesian Consul General in Kuching, 18 Sept. 2008.
20. Figures obtained from the Immigration Department and the Labour Department in Kuching, 17 Oct. 2008.
21. Interview with official from the Labour Department, 17 Oct. 2008.
22. Interview with the Indonesian Consul General in Kuching, 18 Sept. 2008.
23. Interview with SALCRA official, Labour Division, in Kota Padawan, 29 Oct. 2008.
24. Interview with SALCRA official, Labour Division, in Kota Padawan, 29 Oct. 2008.
25. Interview with official from the Labour Department, 17 Oct. 2008.
26. Interview with official from the Labour Department, 17 Oct. 2008.
27. Interview with SALCRA official, Labour Division, in Kota Padawan, 29 Oct. 2008.
28. Interview with SALCRA official, Labour Division, in Kota Padawan, 29 Oct. 2008.
29. Interview with senior SALCRA's official in Kota Padawan, 30 Oct. 2008.
30. Interview with official from the Labour Department, 17 Oct. 2008.
31. Information obtained from a SALCRA official, 12 Aug. 2007.
32. Comment made during an informal dinner with Director of Immigration (Sarawak) in Kuching, 24 Apr. 2008.
33. Interview with an official from the Labour Department, 17 Oct. 2008.
34. Comments made during a visit to Serian Detention Centre (*Depot Pendatang Tanpa Izin Semuja*), 21 Oct. 2008.
35. Comments made during a visit to Serian Detention Centre, 21 Oct. 2008.
36. Comment made by SALCRA employee during a plantation visit in Bau, 11 Dec. 2007.
37. The hotline sticker was given during a meeting with the Indonesian Consul General, Kuching, 18 Sept. 2008.
38. Interview with FELCRA official during a site visit to the Gayu estate, 29 May 2008.

39. Interview with Rimbunan Hijau joint-venture plantation employee who was also in the case study village, Sebandi, 11 Aug. 2008.
40. Information obtained from a plantation field supervisor during a trip around the plantation, 10 Oct. 2008.
41. Interview with senior official, Ministry of Land Development, Kuching, 27 Nov. 2007.
42. Interview with Indonesian labourers, 12 Oct. 2008.
43. Interview with Indonesian labourers, 12 Oct. 2008.

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CHAPTER 13

Deconstructing the Roundtable on Sustainable Palm Oil

Oliver Pye

The Roundtable on Sustainable Palm Oil (RSPO) is a prime example of an increasingly dominant form of privatised environmental governance based on "stakeholder initiatives" in which "best practice" criteria and indicators are negotiated directly, without regulation by governments. It was initiated in 2002 by key retailers and end-users of palm oil (Migros, Sainsburys, Unilever), producers (Golden Hope, the Malaysian Palm Oil Association—MPOA), and the Worldwide Fund for Nature (WWF). For many of its supporters, it has become one of the most successful stakeholder initiatives of all time. The RSPO "Principles and Criteria" offer comprehensive guidelines on both environmental and social sustainability issues. It now encompasses a substantial part of the industry along the entire global supply chain and serves as a blueprint for similar initiatives in the soybean and biofuels industries.

However, the Roundtable has also come under fierce criticism as a "greenwash" exercise. Critics argue that its primary objective is to give a sustainability gloss to business as usual in an industry notorious for environmental destruction and human rights abuses. And as RSPO members become once again targets of hard-hitting environmental campaigns, corporate members are becoming disgruntled, leading to increased tension within the consensus-based organisation.

So how effective is the RSPO in producing "sustainable palm oil"? Are emerging problems and conflicts merely inevitable mistakes

within an otherwise successful project? Can they be overcome by reforms and increased engagement and vigilance as suggested by some (e.g., Laurance et al. 2010)? Or do they point to a deeper crisis of this form of "partnered governance" that has more structural causes? Should NGOs engage with or oppose the Roundtable?

The first part of this chapter discusses the RSPO as a key example of partnership between business and civil society "stakeholders". It sketches the underlying ideology of the "triple bottom line", the emergence of the RSPO as a reaction to negative publicity campaigns and its institutionalisation as a stakeholder initiative. It then discusses the operationalisation of the Principles and Criteria negotiated within the Roundtable via the recently initiated certification process. The comprehensive nature of the RSPO Principles and Criteria and its increasing membership suggests that, on its own terms, it has become a Corporate social responsibility (CSR) success story. On this basis, one wing of the environmental movement presents it as a way in which civil society can constructively engage with industry towards a more sustainable production of palm oil.

In the second section of the chapter, the rhetoric of the "triple bottom line" is examined against the reality of certified palm oil, highlighting some of the most controversial cases involving companies such as IOI, Wilmar, and Musim Mas. It is argued that the estate and mill "scale" of the RSPO limits the potential of the RSPO to address key sustainability issues in any meaningful way. At the same time, the voluntary nature of the RSPO prevents it from seriously sanctioning its own members if they fail to meet their own Principles and Criteria. The result is a rather ambiguous record on key environmental and social issues.

The third part looks at the underlying causes of these contradictions between "talking the talk" and "walking the walk." It argues that rather than seeing the Roundtable as a horizontal space of equal "stakeholders", it should be analysed as containing "knots" of power that constitute "commando centres of network governance" (Görg and Flitner 2010: 13). One such influential knot is analysed here as the Malaysian "Palm Oil Industrial Complex" that is characterised by a complex and close relation between state and private capital and state political power. Because of their influence over state regulatory decision making, the chapter argues that the leading corporations within the RSPO are pursuing CSR and voluntary standards as a "soft" form

of governance while simultaneously preventing "hard" regulation by the state.

The chapter concludes that the contradictions and limitations of the RSPO are eroding its legitimacy, leading to a resurgence of more confrontational activism. Rather than an example of a successful "stakeholder initiative", the RSPO is becoming an arena of contention in which activists and NGOs work inside and outside to put leading brand members under pressure. These new and creative ways of engaging with the Roundtable represent a shift from corporate *responsibility* to a movement for corporate *accountability* (Utting 2008) that could mean the beginning of the end of the RSPO.

THE ROUNDTABLE ON SUSTAINABLE PALM OIL SUCCESS STORY

The Roundtable on Sustainable Palm Oil is very much a child of its age. In response to a heightened environmental awareness and to a growing movement of ethical consumerism, corporations all over the world have embraced "corporate social responsibility" (CSR) as a strategy to combat negative brand campaigns. Initially, CSR was seen as voluntary, unilateral action by corporations that were "understood to have a social conscience" (O'Laughlin 2008: 947). As "environmental governance" (Saunier and Meganck 2007), this was expanded to include "partnerships" between different "stakeholders." The idea that, given a lack of government regulation in the era of globalisation, "consumers might form the basis of a new type of global regulation" based on transnational networks that "could threaten to 'name and shame' companies who fail to meet global standards, and independent monitors could provide the information and transparency needed to make these threats credible" (Seidman 2008: 992), became a new orthodoxy.

As corporations took the paradigm of sustainable development on board, "the rhetoric around commitments to sustainability, corporate citizenship and CSR has been deafening" (Newell 2008: 1064). Proponents of corporate sustainability such as sustainability consultant (and inventor of the "triple bottom line" theory) John Elkington proclaimed a new revolution led by private business that was "shifting the center of gravity from the world of government to the world of business" (1998: 100). His call for new alliances between NGOs and

companies involving partnerships and symbiosis (Elkington 1998: 220) was embraced by some NGOs who moved from confrontation to collaboration "as 'stakeholder dialogues', social learning, NGO service provisioning and participation in 'epistemic communities' associated with CSR and private regulation became the order of the day" (Utting 2008: 960).

The RSPO was initiated after a series of European campaigns targeted palm oil as one of the major factors behind rainforest destruction and devastating forest fires that raged across Indonesia in 1997. In 2002, "consumer-oriented businesses partnered with civil society organisations and palm oil producers to address a perceived long-term threat to their financial interests" (Nikoloyuk et al. 2010: 63) and met for the first time to discuss a possible Roundtable. The initiative was very much brand-driven at this stage, with the key players being consumer-end corporations with high brand recognition such as Unilever, Sainsburys, Migros, and the environmental NGO, WWF (Figure 13.1). However, the initiative soon expanded to include some of the key producers too, including the MPOA. Currently, the RSPO extends across the industry, from the palm oil producers (e.g., Sime Darby, Wilmar), processors and traders, through to food and cosmetic industry retailers and banks (Table 13.1). According to its own calculations, it now represents 35 per cent of production (RSPO 2008). High profile brands are particularly strong in the finance (e.g., WestLB, HSBC, Rabobank, Credit Suisse), retail (e.g., Carrefour, Sainsburys), trading (e.g., Cargill, Mitsubishi), food (e.g., Unilever, Nestle) and cosmetic (e.g., L'Oreal, The Body Shop) industries. Key NGOs include WWF, Conservation International and Oxfam.

Table 13.1. RSPO membership, 2015

Member groups	*Number of members*
Banks and investors	15
Oil palm growers	143
Processors and traders	131
Consumer goods manufacturers	564
Retailers	61
NGOs	40

Source: RSPO website, http://www.rspo.org/members/all.

Figure 13.1. Biswaranjan Sen, RSPO chairperson and vice president for Chemicals Procurement and Supply Procurement, Unilever, speaking at Roundtable 12 in Kuala Lumpur, 2014 (Photo: RSPO).

The corporate sustainability managers of RSPO members argue that it makes economic sense to produce "sustainable palm oil" along the lines of the "triple bottom line" theory of Elkington and similar corporate sustainability ideologues. According to Elkington (1998: 71f) (who refers positively to one of the founding members of the RSPO, the then Golden Hope), the "environmental bottom line" and the "social bottom line" do not contradict the "economic bottom line" at all, but rather are necessary to ensure the profitability of corporations in the future. Companies who implement "full cost pricing" by internalising environmental and social costs ultimately win out by increasing "eco-efficiency" and by improving brand reputation. This leads to the "win-win" situation where NGOs can help companies make more money while at the same time improving "performance against environmental and broader sustainability targets" (Elkington 1998: 93).

In an article explaining how companies can use the RSPO to achieve "corporate excellence in sustainable production of palm oil,"

Teoh and Tan (2007: 462) refer explicitly to the triple bottom line theory to introduce the Principles and Criteria (P&C):

> The RSPO P&C provide the definition of sustainable palm oil production comprising of legal, economically viable, environmentally appropriate and socially beneficial management and operations. This is essentially in line with the definition of sustainable agriculture and the concept of sustainable development (SD) which is characterised by three inter-related value systems pertaining to the society, the economy, and the ecosystem. In business, this is translated to the Triple Bottom Line: the economic bottom line, environmental bottom line and the social bottom line.

Teoh (2004) argues that "there is now a large pool of empirical evidence to demonstrate that companies that have incorporated social and environmental considerations as an integral part of doing business have been able to enhance their economic bottom line and competitiveness." Paying attention to the "environmental and social bottom lines" could save more energy, fertiliser, pesticides and emissions, and thereby save costs. At the same time, palm oil compares well to other oil crops in areas such as energy balance, emissions, fertiliser and pesticide inputs, and productivity per hectare, giving it a "Green Palm Oil Advantage (GPOA)".

The RSPO goes beyond CSR in that cooperation along the chain of production and between private business members and NGOs has been institutionalised. The yearly and quite intensive Roundtable Meeting with hundreds of participants is now in its 13th year. An executive board with business and NGO membership meets several times a year and thematic working groups that are mandated to solve controversial issues or weak spots (such as high conservation value forests, smallholders, greenhouse gases) have characterised the RSPO from its inception. So an institutionalised cooperation between NGOs and business is at the heart of the RSPO, which characterises its working method as "facilitating traditionally adversarial stakeholders and business competitors to work together towards a common objective and making decisions by consensus." One of those involved in the founding of the RSPO, Reinier de Man, frames it as a form of "partnered governance" and claims that it is "among the most successful examples of this emerging model of governance for sustainable development" (Nikoloyuk et al. 2010: 70).

Table 13.2. RSPO Principles and Criteria

Principles	*Key Criteria*
Principle 1: Commitment to transparency	Information on social and environmental issues is made available
Principle 2: Compliance with applicable laws and regulations	Applies to ratified international law; legitimate land rights; FPIC
Principle 3: Commitment to long-term economic and financial viability	Management plan
Principle 4: Use of appropriate best practices by growers and millers	Integrated Pest Management; avoidance strategy for grade 1A or 1B agrochemicals (e.g., paraquat)
Principle 5: Environmental responsibility and conservation of natural resources and biodiversity	Environmental Impact Assessment; High Conservation Value Forest "taken into account"; avoidance of fire for land clearing
Principle 6: Responsible consideration of employees and of individuals and communities affected by growers and mills	Minimum wage, no contract substitution, no forced labour; right to organise trade union; no child labour; policy against sexual harassment
Principle 7: Responsible development of new plantings	Environmental and Social Impact Assessment; since 2005 no new planting in High Conservation Value areas; zero burning; FPIC
Principle 8: Commitment to continuous improvement in key areas of activity	Ongoing improvement of criteria above

Source: RSPO 2007a.

A central plank of the RSPO is its "Principles and Criteria" (Table 13.2), negotiated over a period of two years. NGOs played a crucial role in developing these, as can be seen by some of the principles and criteria adopted. Some of the main points of criticism in anti-palm-oil campaigning have been accounted for, in particular the concern that palm oil expansion is converting rainforest and is causing

forest fires (Principles 5 and 7) and that indigenous peoples are being forcibly driven from their land (the criteria of Free and Prior Informed Consent (FPIC) in Principles 2 and 7). "Best practice" as set down in Principle 4 is also quite important, responding to a critique of the use of the poisonous (and banned in Europe) herbicide paraquat (Fernandez and Bhattacharjee 2006) and the problems connected with the disposal of Palm Oil Mill Effluent (POME). Principle 6 offers standard CSR fare in recognising the right of workers to organise, the payment of minimum wages, and the banning of child labour.

The P&C is therefore quite comprehensive and show the extent of NGO influence within the RSPO. The structure and working method of the Roundtable, by working through consensus and giving each member an equal say, opens up a broad space in which NGOs such as the WWF, Sawit Watch, and the Forest Peoples Programme have been able to wield substantial influence in writing the text of the P&C. In addition, they initiate and are proactive in many of the working groups that are set up to establish best practice guidelines for specific areas (such as high conservation value forest, greenhouse gases, and smallholders). The role of NGOs, therefore, is real and significant and this would suggest that the RSPO is a successful model of environmental governance based on partnership between business and civil society stakeholders.

The argument that taking care of environmental and social bottom lines is ultimately good for the financial bottom line is operationalised by the RSPO in its certification system. Consumer brands (fearful of negative images connected to concerns such as orangutan extinction) are increasingly joining RSPO to be able to source "sustainable palm oil". This creates a premium market for certified palm oil that is of interest to the major producers within the RSPO. According to RSPO president Jan Kees Vis (2008), Certified Sustainable Palm Oil (CSPO) gives "added value in the market: higher price, higher market share, market access". In theory, certification is the key tool by which compliance with the P&C is monitored, honoured, and sanctioned.

As can be seen in Table 13.3, the certification process is already well underway, with some of the biggest producers already being able to label a large percentage of their palm oil as "certified sustainable palm oil (CPO)" (Figure 13.2). By 2014, nearly 12 million tonnes of CPO grown on 2.6 million ha had been certified. For production,

the unit of certification is a specific mill; the surrounding plantations supplying the mill are certified as aligning with the RSPO criteria (RSPO 2007b). Because of the complexities of the global supply chains both regarding the shipping and the further processing of palm oil, however, it is difficult to trace the palm oil in an end-product to a specific mill. For this reason, the RSPO has approved four different "supply chain models" that can make claims of sustainability. These are "identity preserved" (full separation and full traceability to specific plantations), "segregation" (mixed certified oil from various certified plantations), "mass balance" (mixed certified and non-certified palm oil) and "book and claim" (end users, processors, and retailers buy "RSPO certified palm oil volume credits" from certified mills on the "GreenPalm" certificate trading market). The former two models can claim the product "contains only RSPO Certified Sustainable Palm Oil," while the latter two can claim the product "supports the production of RSPO Certified Sustainable Palm Oil" (RSPO 2009).

As more and more end users proclaim their intention of switching to 100 per cent certified palm oil, the RSPO process seems to have become an unmitigated success. RSPO reported that production of certified sustainable palm oil increased from 3.52 million tonnes in 2010 to 12.89 million tonnes (20 per cent of global production) in 2015.[1] Fifty-one per cent was produced in Indonesia and 42 per cent

Table 13.3. Major Certified Palm Oil Producers, 2015

Certified company	*No. of mills*	*Certified Sustainable Palm Oil (tonnes)*
Sime Darby	55	2,201,122
Felda	42	1,376,382
IOI	12	757,766
Kulim (with New Britain Palm Oil)	16	719,880
Kuala Lumpur Kepong Berhad	17	709,620
Indosawit	16	557,201
Smart	9	420,358
Cargill	5	301,456
Wilmar International	6	188,375
SIPEF	5	176,682
United Plantations	4	150,797

Calculated from RSPO website http://www.rspo.org/certification/certified-growers.

Figure 13.2. The RSPO trademark

in Malaysia. Moreover, because the main growers, traders, and users of palm oil are "on board," it seems as if this trend could continue until all of the RSPO members' production, accounting for around 35 per cent of global production, is certified. As the RSPO becomes increasingly successful, this percentage would then increase, making palm oil production gradually more sustainable globally. In this context, NGOs are told to engage constructively with the RSPO to contribute to creating a "normative power oriented to sustainability" (Nikoloyuk et al. 2010: 70). Koh et al. (2010: 70) assert that "environmental groups could contribute more constructively by helping the oil palm industry develop stronger sustainability criteria and by raising consumer awareness and demand for certified sustainable palm oil".

PEOPLE, PLANET OR PROFIT?

The corporate adherents of the triple bottom line in the RSPO such as Wilmar, IOI and Sime Darby are certainly successful in terms of the big P—Profit. As shown in Table 13.4, all three companies have been able to net hundreds of millions, even billions of dollars in profits in recent years. The owners of these companies belong to the super-rich in Asia. For example, Lee Shin Cheng, IOI's chairman, according to Forbes the sixth richest Malaysian, was worth an estimated USD 4.6 billion in 2015 (*Forbes* 2015a) and Kuok Khoon Hong, chairman and CEO of Wilmar, was worth an estimated USD 2.6 billion and was

Table 13.4. Net profit of selected RSPO members (USD million)

Company	*2011*	*2012*	*2013*	*2014*
IOI	655	656	377	447
Sime Darby	851	964	860	779
Wilmar	1,601	1,255	1,319	1,156

Source: http://www.ioigroup.com/Content/IR/IR_Results, http://www.simedarby.com/5_Years_Financial_Summary.aspx, http://ir-media.wilmar-international.com/phoenix.zhtml?c=164878&p=irol-fundFinancialHighlights; rounded figures; Sime Darby and IOI figures converted from MYR at 1:0.232; IOI figures before tax.

ninth on the Forbes list of Singapore's billionaires (*Forbes* 2015b). But how did the bottom line fare in terms of People and Planet?

The key test of the palm oil industry and particularly of the RSPO regarding the "environmental bottom line" is the issue of biodiversity. Much of the anti-palm oil campaigning is around this issue (with the focus on the orangutan as the flagship species) and it is also the main focus of the key NGO involved in the roundtable—the WWF. The inclusion of non-conversion of High Conservation Value (HCV) areas into the criteria is one of the major successes of conservationists involved. However, it is also one of the issues most restricted by structural issues of the palm oil industry that are not touched by the RSPO. Put simply, the loss of biodiversity is less a management issue of existing plantations than a result of the scale and pace of overall plantation expansion.

In the first instance, palm oil was established in the plantation heartlands on the west coast of Peninsular Malaysia and the east coast of northern Sumatra, which had been dominated by the plantation economy since colonial times (Chapter 2). Subsequently, however, plantation companies expanded into Sabah and Sarawak in Malaysia and into Riau and Jambi on Sumatra, and current expansion is taking place in Kalimantan, Sulawesi, and Papua (*see* Chapters 3, 6, 7, 10 and 11). If the first phase of oil palm expansion basically involved replacing existing rubber plantations, the current expansion (perhaps from 1997 onwards) is taking place in frontier regions where the new plantations are established on logged or degraded forest areas and agricultural land.[2] The main areas of the palm oil expansion belong to the "biodiversity hotspot" Sundaland (*see* Chapter 1), that is home to

25,000 plant species (60 per cent of which are endemic), 380 species of mammals (45 per cent endemic), 769 bird species (18 per cent endemic), 452 species of reptiles (54 per cent endemic), and 252 species of amphibians (80 per cent endemic) (Conservation International 2009). Some of the most famous endangered species are the orangutan, the proboscis monkey, and the Sumatran rhino.

For economic reasons, plantations are first established in the plains, where the lowland rainforests provide habitat for much of this biodiversity. While the timber industry caused severe degradation of much of the region's forests (and provided the infrastructure for later conversion to pulp and paper plantations), the conversion to oil palm involves deforestation and the irreversible destruction of habitat. According to Fitzherbert et al. (2008: 542), "oil palm is a particularly poor substitute for either primary or degraded forests, and whereas any conversion of natural forest is inevitably damaging to biodiversity, oil palm plantations support even fewer forest species than do most other agricultural options." In a comparative study of primary rainforest, degraded forest, and mature rubber and oil palm plantations in Riau and Jambi (the Sumatran provinces where the oil palm expansion has been most extensive), Danielsen and Heegaard (1995) found a drastic reduction in biodiversity. Oil palm plantations had 61–80 per cent less bird species, 94–100 per cent less monkeys, and 87 per cent less bats, with generalists taking over from the rainforest specialists. A study by Koh and Wilcove (2008) showed that the conversion of already degraded forest on Borneo led to the loss of 73 per cent of bird species and 79 per cent of butterflies.

The biodiversity crisis is exacerbated by the way in which the last remaining contiguous areas of lowland rainforest are being fragmented by the large-scale plantations, leaving behind forest islands that cannot support viable populations—the so-called "living dead" (Sohdi et al. 2004). Because plantation capital is invested where the infrastructural and political framework is conducive, it forms clusters, leading to a totality of landscape transformation in these areas (Figure 13.3). In Sambas district, West Kalimantan, for example, over 50 per cent of the total area has been allocated to plantation companies (Milieudefensie et al. 2007: 22). Another example is the ongoing fragmentation of the Kinabatangan River in Sabah, one of the last remaining floodplain forest landscapes of Malaysia and home to dwindling elephant and orangutan populations (Payne and Webber 2008).

Figure 13.3. Palm oil mill and surrounding plantations in Sabah. The mill and supplying plantations form the basic unit for RSPO certification, thereby cementing large-scale landscape transformation (Photo: Oliver Pye).

In order to seriously tackle the biodiversity crisis, therefore, the RSPO would have to slow down or stop further palm oil expansion into both pristine and "degraded" forest areas. But this is not part of the RSPO agenda, which is committed to the further growth of "sustainable" palm oil and does not support industry-wide action restricting further expansion. Rather, the key Malaysian corporations involved in the Roundtable are themselves heavily investing new expansion in Indonesia. The RSPO HCV criteria only apply to plantations established after 2005 (and in Indonesia, with certain restrictions, to plantations established after 2007 (Colchester et al. 2009)). It thereby effectively rubber stamps the largest conversion of forested areas in history as sustainable—as fait accompli. As Nikoloyuk et al. (2010: 67) point out, this leads to the certification of existing plantations, while newer companies avoid the RSPO: "So far, the plantations that have certified have been mature and established ones. When companies have concessions to develop in forested areas, they have not

been persuaded by the appeal of future RSPO certification." At the aggregate level, the option of claiming the status "Supports the Production of RSPO Certified Sustainable Palm Oil" for companies that have bought some certificates can "lead to a market segmentation between a class of 'clean' well-capitalized producers who seek to address RSPO criteria and thereby obtain a premium for selling certified products to developed markets, while the majority of 'dirty' producers continue to sell uncertified product to developing markets outside of the RSPO framework at a lower price" (McCarthy and Zen 2010: 169).

The best scenario under the RSPO would be continued expansion in which certified companies leave leftover patches of HCV forest intact, leading to a landscape dominated by palm oil with fragments of forest islands inside, and resulting in the problem of the "living dead" mentioned above. But even this "best scenario" is not happening. According to the RSPO certification rule book (RSPO 2007b), estates are only certified if the company is not involved in converting HCV forest elsewhere. However, NGO research into certified companies has shown that RSPO companies ignore this rule repeatedly. Embarrassingly, Greenpeace was able to show that the very first company to become certified, United Plantations (a leading light within the RSPO), was clearing HCV forest in West Kalimantan and concluded that "United Plantations may have their RSPO certification of Malaysian plantations but continue with business as usual in their Indonesian concessions" (Greenpeace 2008a: 5). Another prominent case was Wilmar, which was shown to be clearing tropical forest via subsidiaries in Sambas, West Kalimantan (Milieudefensie 2007, *see* below). Further research by Greenpeace (2007, 2008b) could prove that a major group of RSPO members (including IOI and Wilmar) were involved in the deforestation of orangutan habitat. All of the companies remain RSPO certified. Despite these negative examples, there are also cases of RSPO members conducting HCV appraisals and excluding them from conversion, but this is leading to a new problem. A recent study conducted for the RSPO has shown that "HCV areas once identified are not being protected but are being re-allocated to other companies" (by the district authorities) or that they are "being relinquished by companies" (because it is not profitable to keep them) (Colchester et al. 2009: 31). The authors conclude that "in sum, the intended result, that the application of the RSPO standard will secure

HCV areas, is being frustrated by the ill-fit between the RSPO process and the policies, laws, regulations and procedures of the Indonesian government" (Colchester et al. 2009: 32). In short, with regard to one of the key components of the "environmental bottom line," the RSPO has been a failure.

The second key test of the RSPO in terms of "Planet" is the question of greenhouse gases (GHG). With regard to the "sustainability advantage" of the palm oil industry vis-á-vis carbon emissions, presenters at the International Palm Oil Sustainability Conference (IPOSC) 2008 consistently argued that palm oil would be a net storer of carbon once the methane released by the anaerobic decomposition of the Palm Oil Mill Effluent (POME) was captured (Figure 13.4). Several corporate presentations boasted of their Clean Development Mechanism projects in this regard. However, the reality on the ground is far from the rhetoric at the conference. Of the 410 mills in operation in Malaysia, most "have opted for the open pond or lagoon

Figure 13.4. Palm Oil Mill Effluent (POME) lagoon in Sabah. Methane gas from these lagoons is the biggest contributor of GHG emissions after land conversion and the draining of peat land (Photo: Oliver Pye).

system to treat POME as a current practice because this is the most common and least costly solution. The anaerobic decay of organic matter inside the ponds or lagoons is accompanied by the production of methane, a highly potent GHG released in an uncontrolled manner to the atmosphere" (Genpower Carbon Solutions Services 2010: 2). By 2009, only 12 mills had projects registered with the UNFCCC (Genpower Carbon Solutions Services 2010: 10).

Capturing POME methane could reduce emissions from this source—estimated at 920–2,062 kg CO_2-eq per tonne of CPO—by up to 70 per cent (Brinkman Consultancy 2009: 12).[3] The technology for this exists and is relatively straightforward, the simplest method consisting basically of spreading a large plastic bag over the POME lagoon and using the methane as fuel (Mohd Ali et al. 2009: 1575). However, "the only regulation and requirement by Malaysian authority regarding POME treatment systems is the restriction to discharge the POME into the water stream or land" (Genpower Carbon Solutions Services 2010: 7). To date, the RSPO has no criterion that deals specifically with the POME-methane issue. An RSPO GHG working group remained divided between those who wanted to impose "mandatory biogas capture" and those who preferred a vague formulation of studying the "feasibility of reducing methane emissions," and the working group concluded that "specific indicators on POME *might* be included under proposed new Criterion 5.7 ("Plans to reduce GHG emissions")" (Brinkman Consultancy 2009: 32–3, italics added). In the revised version of the P&C (RSPO 2013), the preamble to the criterion on plans to reduce pollution and emissions states that "it is not always feasible or practical to reduce or minimise these emissions" and, rather than prescribing methane capture, members are only required to 'record' "the treatment methodology for POME" (Criterion 5.6). The only document that mandates methane capture is a supplement for producers who wish to qualify for the EU Renewable Energy Directive (RSPO 2012), in other words, to meet targets that are legally binding. In other words, while the CSR departments of the large corporations wax lyrical about the environment, the RSPO does not even have a *voluntary* criterion for capturing methane, and the Malaysian and Indonesian political authorities decline to introduce a simple regulation to the industry that could reduce emissions from POME by up to 90 per cent (Brinkman Consultancy 2009).

A similar schism can be seen in the much lauded Integrated Pest Management. While barn owls adorn the glossy PR brochures of the RSPO members,[4] women daily workers are still predominantly engaged in spreading inorganic fertilisers and pesticides. And while the RSPO calls for the reduction and/or elimination of the use of dangerous chemicals such as paraquat (Indicator for Criterion 4.6), RSPO members in the MPOA have successfully lobbied for the 2005 ban of paraquat in Malaysia to be revoked. At the General Assembly of the RSPO in March 2012, a proposal by the Pesticide Action Network to phase out paraquat use in RSPO members' plantations was voted down by corporate members (author's observation).

If the environmental bottom line proves to fall short of even the minimalist RSPO requirements, what is the balance in terms of social responsibility? Here, the key issues are land conflicts associated with the expansion of oil palm plantations and working conditions and wages on the estates. Regarding the issue of land conflicts, RSPO members are required to abide by national laws (Criterion 2.1), avoid land that is "legitimately contested by local communities with demonstrable rights" (Criterion 2.2), and to follow the principle of "free, prior and informed consent" (Criterion 2.3) when establishing new plantations on land owned or used by local communities. The certification procedure also rules out estates being certified if a company's other estates have unresolved land conflicts (*see above*). In theory, this should rule out that RSPO members and particularly RSPO certified companies are responsible for land conflicts in their areas. Again, however, two of the most vocal corporations at the IPOSC 2008, IOI and Wilmar, prove otherwise.

In a widely publicized case, local NGOs and Friends of the Earth Netherlands (Milieudefensie) conducted research that showed that "three Wilmar subsidiaries in Sambas commenced land clearing in customary rights land and other villagers' land without prior consultation and a due land acquisition process in relevant areas and affected communities" (Milieudefensie et al. 2007: 6), leading to extensive land conflicts. The case was taken to the Ombudspersons of the International Finance Corporation (IFC) and eventually led to the IFC suspending its funding of the palm oil sector (Forest Peoples Programme 2009). Wilmar is currently embroiled in another controversial land conflict in Sungai Beruang in Sumatra. In the IOI case, a High Court ruling found for the Long Teran Kanan village, whose customary land

had been taken over by Rinwood, a company subsequently acquired by IOI (*see* Chapter 6). However, rather than complying with the ruling by vacating the land and paying compensation, IOI declared that it would appeal the case. This contradicted promises made to the community during an RSPO grievance process initiated to solve the conflict. However, "IOI continues to maintain its RSPO certification status despite there being clear evidence that it is involved in significant land conflicts through this dispute in Long Teran Kanan" (Grassroots 2010: iv). Again, according to the certification rule book (*see* above), companies with these kinds of social conflicts should not be able to certify *any* of their plantations, but both companies have large areas certified (*see* Table 13.3) and both remain prominent members of the RSPO.

On labour issues, the RSPO is particularly fuzzy, requiring only that pay and conditions meet "minimum standards and are sufficient to provide decent living wages" (Criterion 6.5) and that workers "have the right to join a union" (Criterion 6.6). However, the sector as a whole relies on a "flexible labour regime" (Saravanamuttu 2012) and, in Malaysia, on hundreds of thousands of Indonesian migrant workers with minimal organizing rights (Chapters 11 and 12, Figure 13.5). Both IOI and Wilmar are non-unionised companies in Sabah and IOI refuses to recognize the National Union of Plantation Workers in the peninsula (*The Star Online* 2010). Although Sime Darby has a collective agreement with the Sabah Plantations Industry Employees Union, whether they pay "decent living wages" is debatable. Harvesters are paid MYR 15.5 per tonne of harvested fresh fruit bunches (compared to the approximately MYR 700 currently paid to smallholders by mills in Sabah), and general field workers are paid a daily MYR 13.5, taking home MYR 300–400 a month if they work overtime and on the weekend (author's research). In an industry increasingly dominated by subcontracting, most workers earn significantly less, while over 80 per cent of workers earn less than EUR 40 in the estates in Indonesia (Marti 2008: 78–84).

A starker example of the extent of the "corporate social responsibility" of RSPO members is offered by the Musim Mas case. In 2005, the management of the Riau operations of Musim Mas fired 700 employees after they held a strike for recognition of their union, Kahutindo. The workers were immediately evicted from their homes, and six union leaders were arrested by the police and imprisoned.

According to an ILO (2007) investigation into the case, the union contended that

> the BWI's affiliate, SP Kahutindo, has faced constant harassment and repeated violations of trade union rights by the employer, PT Musim Mas. In particular, it alleges the employer's refusal to recognize SP Kahutindo; establishment of a rival "yellow" union by the employer; dismissal of 701 workers and eviction of these workers and their families from their housing on the plantation estate, following a legal strike; non-renewal of contracts of 300 contract workers following the same strike; arrest of six trade union leaders; intimidation, harassment and disciplinary transfer of trade union members and officials.

Figure 13.5. Workers repairing the steamer in a palm oil mill. Despite a criterion specifying the "right to join a trade union", most mills and plantations are non-unionised across Indonesia and Malaysia (Photo: Azman).

In 2006, a delegation of union representatives from the Malaysian Trade Union Council, the International Union of Foodworkers (IUF), and the Building Workers International brought the case to the Executive Board (EB) of the RSPO. But it refused to take any action other than to write to the IUF explaining that the RSPO was "neither police nor judge" and that it had to respect the court decision that sentenced the union leaders. Alan Southworth from Musim Mas reminded the EB that the RSPO "does not have a mandate to be involved in labor disputes" (RSPO 2006). In an open breach of Criterion 6.6 concerning the right to organize, the RSPO hid behind the argument that the union-busting operation had been legal under Indonesian law to legitimate no action at all against its member Musim Mas. In their response, the IUF and the BWI stated that:

> By refusing to apply their own statutes and their "Principles and Criteria" to a member, they have taken a position in support of a company which has engaged in serious violations of internationally recognized standards on fundamental human rights. And they have acted—very concretely—to ensure that the RSPO is committed to a concept of sustainable palm oil production in which palm oil workers' rights, jobs, families and communities are simply disposable. (Normark and Oswald 2006)

Left in the lurch by the RSPO, the dismissed workers eventually gave up their struggle for an independent union at Musim Mas. In exchange for compensation amounting to USD 123 per worker, they agreed to drop all charges against the company, effectively giving up their right to appeal against their unjust dismissal. Three years later, the Control Union Certifications Assessor, David Ogg, certified that "the company demonstrated commitment to the implementation of the P&C of the RSPO and this commitment is apparent at all levels of management" (Control Union Certifications 2009: 13) and that Criterion 6.6 was met by a "published statement recognising freedom of association" (Control Union Certifications 2009: 24). In effect, the RSPO certifies that its member has successfully busted a union.

THE PALM OIL INDUSTRIAL COMPLEX IN THE RSPO

In the face of consistent problems and conflicts surrounding prominent RSPO members, the initial euphoria surrounding the Roundtable has

waned to some degree. Supporters from the academic community (Laurance et al. 2010) recently suggested a series of technical reforms to improve its environmental (rather than social) performance. For example, they suggest a larger NGO membership, more monitoring and enforcing capacity, and that "the environmental community needs to do a much better job of convincing palm-oil users to buy certified sustainable palm oil" (Laurance et al. 2010: 380). At the same time, they remain committed to the RSPO and call for constructive engagement by NGOs, because the RSPO is the "only game in town".

There are several problems with this approach. First, the influence of NGOs within the RSPO has been significant from the outset, as reflected in the wordings of the P&C (and in the grumblings of certain corporate members). It is difficult to see what adding more NGO members would change. Second, the Forest Stewardship Council, cited as an example of a more successful tripartite structure, is experiencing the same kind of problems as the RSPO.[5] Third, and more fundamentally, this "rendering technical" (Li 2007: 7) of the substantive issues neglects questions of conflicting interests and power relationships that inform the structural reasons behind the RSPO's failure to deliver.

As argued in the introduction to this chapter, rather than viewing the RSPO according to its own rhetoric as a "roundtable" of equal and commonly motivated "stakeholders," it can be more usefully analysed as one arena of networked governance consisting of "knots" of power (Görg and Flitner 2010: 13). As those producing palm oil and those having to certify their operations, the palm oil industry is a crucial "commando centre" in the RSPO governance system. It has a contradictory and tactical relation to the RSPO that has evolved over time. This tactical relation is connected to the other game the palm oil industry is playing, in other words, the more traditional one of state power, political influence, and industry regulation.

Elkington's Triple Bottom Line type of CSR initiative is based on a conceptual separation between capital and the state, and a supposed loss of influence of the latter. A "world of government" (bureaucratic, cumbersome, corrupt) is counterpoised to the "world of business" (entrepreneurial, innovative, visionary). However, this view of state-capital relations is both simplistic and lopsided. Following Poulantzas, the capitalist state should be seen as the "material condensation" of a "relationship of forces" among "classes and class factions" (Poulantzas,

cited in Demirovic 2011: 43). When examining the palm oil industry in Indonesia and Malaysia and its positioning within the RSPO, its particular relationship to the state is especially important. The Malaysian and Indonesian "developmental states" played a crucial role in developing the industry in the 1980s and 1990s. Currently, state capital and private capital are closely linked to state political power (Chapters 1 and 2). The emergence of the CSR regime of the RSPO must therefore be analysed within the context of the overall regulation of the industry.

In contrast to the rhetoric on the disappearing state, the dominant palm oil corporations are closely linked to state power, particularly to the Malaysian national state. Indeed, the largest shareholder of a significant proportion of the largest palm oil companies is state capital. For Malaysia and Indonesia, the nationalisation of the colonial plantation industry was a central plank of the independence struggle and part and parcel of the developmental state. In Malaysia, the formerly British plantation companies Golden Hope, Kumpulan Guthrie, and Sime Darby were all nationalised at the end of the 1970s under the New Economic Policy, NEP (Chapter 2). These three "jewels in the crown of Malaysian industry" (ex-Prime Minister Abdullah Ahmad Badawi, Sime Darby, 2008: 3) were then merged to create the new Sime Darby in 2007, one of the largest palm oil corporations in the world. Another state corporation is the Federal Land Development Agency (FELDA), originally set up to manage smallholders, but which now has the largest area under plantations in Malaysia. Kulim, which owns New Britain Palm Oil, the biggest palm oil player in Papua New Guinea, is a corporation in the Malaysian state of Johor. In Indonesia, Sukarno nationalised the Dutch plantation companies in northern Sumatra, partly in response to the wave of workers' strikes and occupations there in the early 1950s (Stoler 1995). Today, the state plantation companies PT Perkebunan Nusantara I–XIII control over 600,000 ha of oil palm plantations—more than any other group.

Private investment in palm oil is dominated by transnational corporations from Malaysia, Singapore, and Indonesia that also have significant political clout. Leading Malaysian corporations include IOI, Kuala Lumpur Kepong (KLK) and the Genting group (Asiatic Development Berhad), all of which have substantial investment in Indonesia. One of the biggest in terms of plantations, refineries, and trade is

the Singapore-based Wilmar, whose biggest investor is the large and influential Malaysian Kuok Group. Indonesian players include conglomerates Sinar Mas, Raja Garuda Mas, Musim Mas, and the Salim Group, which earned billions through logging, pulp and paper plantations, and agribusiness under Suharto. Palm oil businessmen regularly make the Forbes list of billionaires for the region. Western investment plays a lesser role; for example in the Danish/Malaysian United Plantations, the old colonial British/Singaporean Jardine Matheson (which bought the Indonesian palm oil company Astra), Cargill plantations, and the ten per cent shareholding of the US corporation Archer Daniels Midland (ADM) in Wilmar.

In Malaysia, state and private capital are so intertwined with different state agencies that I have previously dubbed it the "Palm Oil Industrial Complex" (Pye 2008, Figure 13.6). The Ministry for Plantation Industries and Commodities awards highest priority to the industry, reflected by the political importance of the Sime Darby merger and by the Ministry's involvement in international relations. Via its control over the key corporations—Sime Darby, Kulim, and FELDA—the state directly shapes the industry. Nevertheless, leading private transnational companies (TNCs) dominate the influential

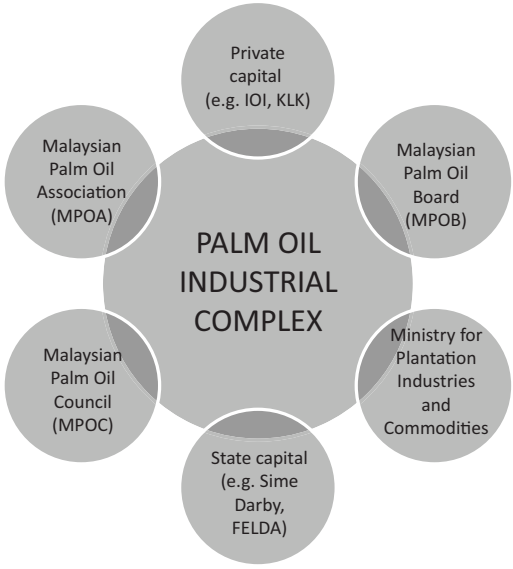
Private capital (e.g. IOI, KLK)
Malaysian Palm Oil Association (MPOA)
Malaysian Palm Oil Board (MPOB)
PALM OIL INDUSTRIAL COMPLEX
Malaysian Palm Oil Council (MPOC)
Ministry for Plantation Industries and Commodities
State capital (e.g. Sime Darby, FELDA)

Figure 13.6. The Palm Oil Industrial Complex in Malaysia

Malaysian Palm Oil Association (MPOA) and are equally dominant in the political bodies regulating and representing the industry—the Malaysian Palm Oil Board (MPOB) and the Malaysian Palm Oil Council (MPOC).

The Malaysian Palm Oil Board (MPOB) is the key regulating body or, in its own words, the "steward of the Malaysian Palm Oil Industry" (MPOB undated). It "regulate[s], register[s], co-ordinate[s] and promote[s] all activities relating to the oil palm industry" (MPOB undated, p. 7). The MPOB board is appointed by the Minister of Plantation Industries and Commodities and consists of key state agencies (Ministry of Primary Industries, Ministry of International Trade and Industry), government representatives from Sabah and Sarawak, FELDA, and all the main industrial associations of the sector (the Malaysian Palm Oil Association (MPOA), the Malaysian Edible Oil Manufacturers' Association (MEOMA), the Palm Oil Millers' Association (POMA), the Palm Oil Refiners' Association of Malaysia (PORAM), the Malaysian Oleochemical Manufacturers Group (MOMG), and the National Association of Smallholders (NASH)) (MPOB undated, p. 9). The major state and private TNCs directly influence the "stewardship" of the industries via these associations, which they dominate. "People" and "Planet" are conspicuously missing; neither the Ministry of Natural Resources and Environment nor the National Union of Planttion Workers (NUPW) are on the MPOB board.

The MPOB not only regulates, but also actively shapes the industry. With seven research centres and hundreds of scientists, it plays a major role in research and development, cooperating closely with state and private companies in developing such innovations as genetically modified palm oil and industrial processing technology. It also provides further training courses for palm oil corporate employees and publishes a range of scientific journals (e.g., *Journal of Oil Palm Research*, *Oil Palm Industry Economic Journal*, *Palm Oil Update*). Public-Private-Partnership (PPP) is the modus operandi here, with the MPOB playing an active role, for example, in the development of biodiesel technology. It regularly publishes a list of applications and patents, which show little concern for sustainability issues. For example, in 2007, applications included the "Unidirectional Slanting-Hole Planting Technique for Oil Palm on Deep Peat" and "Maximising the Potential of Phosphate Fertilisers for Increasing Mature Palm Oil Yield".

A different but equally crucial role is played by the Malaysian Palm Oil Council (MPOC), which was set up to counter the negative campaigns against the industry (Teoh 2002). Although the organisation's public face is very much defined by its charismatic CEO, Dr Yusof Basiron, its board of trustees is made up of the biggest names in the business. Until recently, its chairman was Kuala Lumpur Kepong Berhad's CEO (and Malaysia's 12th richest man), Lee Oi Hian. Other trustees included Haji Sabri Amad (former chairman of Sime Darby), Carl Bek-Nielson (United Plantations), and Lew Yeow Chor (IOI Corporation), as well as representatives from the Ministry of Plantation Industries and Commodities, FELDA, and the Sabah and Sarawak state governments (MPOC 2007: 6). The current chairman is Lee Yeow Chor, the Executive Director of IOI.

The MPOC functions as a marketing agency for the palm oil industry. With "strategically situated" regional offices in Brussels, Los Angeles, Cairo, Dubai, Durban, Lahore, Mumbai, Dhaka and Shanghai, it has global lobbying reach.[6] It uses these offices to conduct hard-hitting campaigns (e.g., the 2007 European lobbying tour of then Plantations Minister, Peter Chin (Down to Earth 2007)), regular media work (e.g., with replies to critical articles in the British press), and also for trade fairs (Palm Oil Trade Fair and Seminar, POTS) and regular "sustainability conferences".

If the same corporations that propagate a "constructive engagement" strategy with the RSPO at the same time dominate the key political entities of the palm oil industry in Malaysia that are blocking meaningful environmental and social regulation of the industry, how can this contradiction or tension be explained? The answer lies in the *specific form* of the state and governance system that developed in the palm oil sector. This is defined by the way the "developmental state" interacted with the general tendency of a globalised neoliberal accumulation regime. In Malaysia, direct state control over key sectors of the economy (finance, mining, oil, plantations (Searle 1999: 58–78)) was modified in the 1980s to embrace a systematic "partnership" between state and private capital within strategically managed areas of national interest, branded as the "Malaysia Incorporated Policy" (Okposin et al. 1999). As private and state palm oil corporations "transnationalised" spatially into Indonesia and downstream into further processing, they took on the CSR paradigm as part of an agenda of deregulation:

> The rise of CSR is in no small part a move to offset and pre-empt regulations aimed at protecting the losers from globalisation, ensuring minimal standards of social and environmental protection. […] CSR is ultimately and inherently a product of the neoliberal political economy from which it emerged and which it aims to legitimate and advance, reproducing its modalities, technologies of governance and failings. In this regard there is a preference for selective engagements in private arenas—discretionary, closed, lacking in sanctioning measures. (Newell 2008: 1064, 1069)

This led to a combination of "hard" regulation in the interests of "profit," and voluntary governance in the areas of "people" and "planet." State regulation provides a framework favourable to industry by ensuring a minimum-wage flexible labour regime, prioritising large-scale estates over local land rights, enabling the conversion of forests to plantations, and providing state investment in research and development, while sustainability issues are outsourced to the CSR departments of the corporations active within the RSPO. Through the RSPO, brand-sensitive corporations developed a systematic engagement with NGOs as "a hegemonic strategy where they did not simply placate the opposition through co-optation but exercised moral, intellectual and cultural leadership, taking onboard certain concerns of the opposition" (Utting 2008: 966). It is this strategy that is now unravelling as social movements and NGOs refuse to adopt the role of constructive engagement that has been offered to them by the RSPO.

CONCLUSION: TOWARDS CORPORATE ACCOUNTABILITY IN THE PALM OIL INDUSTRY

Even a cursory look at the practice of certified RSPO members reveals a gaping hole between rhetoric and reality. The underlying concept of the Triple Bottom Line "in fact turns out to be a 'Good old-fashioned Single Bottom Line plus Vague Commitments to Social and Environmental Concerns'" (Norman and McDonald 2004: 256). Rather than a projected harmonious relationship between "people, planet and profit," the industry as a whole is based on a model that extracts maximum profit at the expense of people and the planet. The potential of the RSPO to offer an alternative is limited by its inherent dependence on this business model, the basic tenets of which are the

conversion of forests into large-scale monocultures, continued expansion of the industry, and the exploitation of a flexible labour force of migrant workers. Its primary objective is not to overturn this business model, but to outsource the regulation of key sustainability issues to a voluntary system of governance. The voluntary nature of the roundtable and its inability to seriously sanction its members when they breach their own P&C reinforces its image among large sections of civil society as a "greenwash initiative" and a "hollow front for corporate greed and brutality" (Normark and Oswald 2006).

The lack of RSPO legitimacy within civil society has led to a resurgence of campaigns that use confrontationist strategies that were supposed to have become outdated after the advent of "partnered governance." Prominent examples include the Greenpeace campaigns against RSPO members Unilever, Nestlé, and Sinar Mas. Using highly effective "ad-busting" clips ("Dove Onslaughter" and the famous Kit Kat spoof showing an office worker "having a break" by biting into an orangutan finger), they were able to link Unilever and Nestlé to deforestation. Brand pressure had almost immediate effect, with major companies cancelling their contracts with the notorious Sinar Mas group and Unilever supporting a blanket moratorium on further palm oil expansion. In turn, the failure of the RSPO to prevent or rein in most of the campaigning against the palm oil industry has led to a legitimacy crisis among its members:

> […] negative campaigns may be seriously damaging the RSPO's legitimacy among its members. Producers who largely joined the initiative to combat negative publicity now see the leading certified companies becoming targets for further attacks. Rather than the shelter they expected, RSPO has begun to be perceived as a way to be singled out for not complying with specified criteria. (Nikoloyuk et al. 2010: 69)

The renewed risk of negative public relations and the termination of business relations between targeted manufacturers such as Unilever and their suppliers have led to a rift between the corporate members of the Roundtable. At its 2012 General Assembly, a divide between palm oil buyers (manufacturers and retailers) and palm oil producers in Malaysia and Indonesia led to contrary voting patterns on issues such as the election of the president, a moratorium on further certification, and the sale of certified palm oil "credits" (author's observations).

Opposition to the current secretariat was led by the Malaysian Palm Oil Association (MPOA)—the Malaysian palm oil producers—which has become unhappy with the failure of the RSPO to deflect negative press campaigns and with the low premium paid for certified palm oil. This discontent is shared by the Indonesian palm oil producers association GAPKI, which left the RSPO at the end of 2011 to create its own brand of "Indonesian Sustainable Palm Oil" (ISPO).

Rather than a "partnership" between like-minded NGOs and corporations, the RSPO has become one arena of contention within a broader movement for "corporate accountability" that is characterised by:

> […] a shift in emphasis from corporate responsibility to accountability, from voluntary initiatives to law and public policy, from codes of conduct to verification and industrial relations, as well as a resurgence of contestation. The new agenda also emphasized the issue of power and the need to build coalitions and alliances that might act as countervailing forces to big business interests. (Utting 2008: 960)

Instead of a dichotomy between "constructive NGOs" within the RSPO and fundamentalist "blackwashers," as suggested by Koh et al. (2010), increasingly sophisticated and innovative alliances are employing an "inside-outside" strategy to use the Roundtable as *one* (but not the only) leverage for change. "Insiders" such as Sawit Watch, the Forest Peoples Programme, and Wild Asia battle within the executive board and the working groups to define agendas and to push for higher standards. This includes pushing for more effective action regarding carbon emissions, operationalising labour standards (by encouraging management to recognise unions and exploring what a "decent living wage" actually should be), developing programmes for the implementation of Free, Prior and Informed consent, and using internal mechanisms to solve some of the breaches of RSPO P&C (e.g., in the Wilmar Sambas conflict discussed above). Meanwhile, "outsiders" such as Friends of the Earth and Greenpeace use the RSPO criteria as benchmarks to examine the practice of prominent RSPO members to more effectively campaign against them, and the RSPO grievance procedure to take up specific cases.

In recognition of the limitations of the RSPO, "insiders" are also involved in broader campaigns that go beyond CSR. The Forest

Peoples Programme and Sawit Watch, for example, are involved in the Palm Oil Monitoring Initiative (POMI) that has an independent mandate to act as a watchdog over RSPO members. Activist interventions into the RSPO are embedded within a corporate accountability movement that also targets state policies (e.g., the European Union biofuels policy (Pye 2010), or the demand to the Indonesian government for a moratorium on further expansion), the International Finance Corporation (*see* above), the UK Advertising Standards Authority (leading to a ban of MPOC advertising), local government authorities (preventing palm oil-burning power plants), and many more. Increasingly, this work also includes building grassroots movements and alliances among and between indigenous peoples, small-scale farmers, and plantation workers within the context of an emerging movement for "climate justice" (Pye 2010). Any serious change of the palm oil industry in the direction of more sustainability is likely to come from these quarters rather than from within the RSPO and the boardrooms of corporate social responsibility.

NOTES

1. *See* http://www.rspo.org/about/impacts.
2. Though FELDA's expansion in Malaysia involved conversion of primary forest from the 1960s onwards (Chapter 2).
3. If forest conversion and the draining of peatland are included, total emissions rise to 30,240 kg CO_2-eq per tonne of CPO. Rhett Butler, Emissions per metric ton of crude palm oil (CPO), Mongabay. Available at http://rainforests.mongabay.com/deforestation/charts/commodities/palm-oil-emissions_cpo.html (accessed 5 Oct 2015).
4. The Integrated Pest Management measure consists of nailing nesting boxes to oil palms so the owls can eat rats. However, barn owls are restricted to Peninsular Malaysia and are therefore irrelevant for most estates, and there is some doubt whether the nesting boxes actually work, being, in the words of one expert, "too hot."
5. *See* fsc-watch.org for examples.
6. *See* http://www.mpoc.org.my/main_coprofile_regional.asp.

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CHAPTER 14

Conclusion

John F. McCarthy and Rob Cramb

The decades-long oil palm boom in Indonesia and Malaysia has generated the most rapid and extensive transformation of agrarian and forest landscapes ever seen in the two countries, surpassing the commodity booms of previous centuries. While governments, civil society organisations, and industry roundtables have set out to address the problems associated with oil palm, the industry continues to generate land conflicts and deforestation as it moves into frontier zones with apparent impunity. Global demand for palm oil is projected to continue growing for at least the next three to four decades, with China and India as the main markets. Hence the incentives for farmers and plantation companies to go on increasing production will remain strong.[1] Average oil palm yields have remained constant for decades, so the pressure will be for this increased production to come from further rapid expansion into the forest frontier.

Nothing could underscore the problems associated with the industry more than the destructive forest fires that beset Sumatra and Kalimantan during 2015. Attributed largely to illegal land clearing for oil palm plantations, the fires reportedly burnt up to 3 million ha, including large areas of peatland, causing USD 14 billion in losses, additional greenhouse gas emissions of around 1.75 billion tons of CO_2-equivalent, and extensive health problems for the millions of people in the region affected by the haze.[2] This latest in a long line of controversies reinforces the view that, while providing wealth for some (including both large corporations and well-situated smallholders), the

oil palm complex skews the allocation of resources and the distribution of benefits in favour of a powerful cross-country coalition of political, bureaucratic, and agribusiness interests that, notwithstanding the industry rhetoric, puts "profits" well ahead of "people" or "planet".

Critics may be tempted to see the oil palm complex as a centrally coordinated capitalist conspiracy. Rather, we argue for understanding this complex as an ensemble of complicated, interrelated parts, the sum of different vectors, encompassing a variety of interests and relationships. Figure 14.1 presents a simple, generic view of the key actors and interrelationships that constitute the oil palm complex. The story of oil palm told in this book is both of change from above—driven by large agribusiness corporations and state policies and agencies—and of change driven from below by smallholders, migrant workers, district officials, and other local actors seeking to get a share of the benefits generated by the boom. It also involves change from without as advocates for landholders, workers, and the environment seek to influence private and public actors to make the industry more equitable and sustainable. As various processes work out in highly uneven and locally specific ways, a complex mosaic of economic, social, and environmental impacts is inscribed across the diverse landscapes of the region.

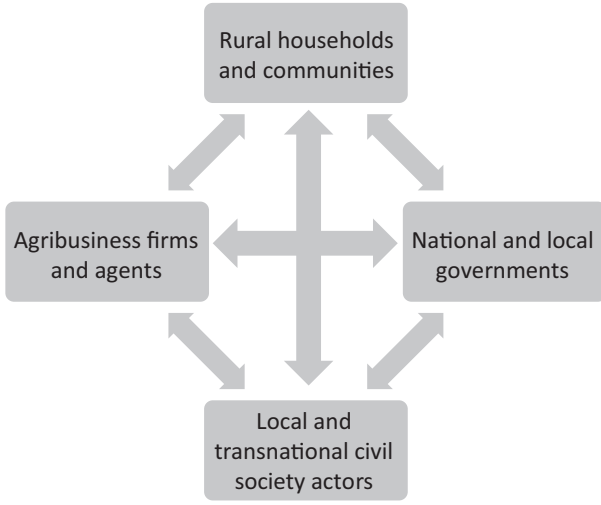

Rural households and communities
Agribusiness firms and agents
National and local governments
Local and transnational civil society actors

Figure 14.1. Generic view of key actors and relationships in the Indonesia-Malaysia oil palm complex

THE COMPLEXATION PROCESS

The oil palm complex is thus formed and reformed through a process of "complexation".[3] Different actors, pursuing their varying interests with their particular capabilities, and within the constraints set by the broader political economy, develop accommodations or agonistic forms of relationships, in the process creating recognizable patterns with distinct outcomes. For example, the nucleus estate and smallholder (NES) complex arose at a particular conjuncture in Indonesia as a compromise between the interests of a developmental state with limited resources, plantation companies needing access to land, smallholders wanting to improve their livelihoods, but lacking finance and technology, and donor agencies promoting broad-based economic growth (Chapter 3). This complex, though problematic in many respects and a site of ongoing contestation, remained relatively stable, partly due to an inertial "locking in" or congealing of relationships that accommodated a wide group of actors. Eventually, shifts in the interests and capabilities of constituent actors, brought about by both internal and external changes (notably, the shift to market-led forms of development as well as the 1998 financial crisis and its aftermath), led to the emergence of new configurations, such as the "partnership" (*kemitraan*) schemes (Chapter 2), with a very different set of relationships and outcomes.

Thus, while taking account of the contingencies that can be observed from grounded research, our aim has been to understand how particular conjunctures make certain formations and outcomes more or less likely. Accordingly, like Vandergeest and Rigg (2012), we have aimed to understand the characteristic patterns underlying the variability we see. Following Li (2014), we locate both the patterns and the variability in the specific historical conjunctures that shape the form and trajectory of the complex. In our view, the contours of the oil palm complex at any one time are not primarily determined by technical or market imperatives; rather, they reflect the political settlements that encompass the key opportunities for surplus extraction and political patronage across the region. Such political settlements emerge from "the political compromises between powerful groups in society that set the context for institutional and other policies" (Khan 2010: 4). The interests and agendas of the dominant actors, the coalitions they enter into, and the agreements they strike around the

operation of power and the distribution of resources are congealed in accommodations that ultimately shape the economic and political outcomes.[4] The accommodations and compromises at the heart of these political settlements underpin state practices for allocating lands, including in recent decades the delivery of large areas of both public and customary land to a small but powerful clique of private plantation companies (Chapter 6). They also shape the design of schemes that set out land- and benefit-sharing arrangements that increasingly favour plantation investors (Chapters 2 and 3). Further, they condition how regulations are implemented in practice, including those that might curtail the excesses associated with oil palm expansion (Edwards 2015; Chapter 13).

This dimension of the complex is most evident in the interlocking ownership structures that, as Varkkey (2013, 2015) describes, have emerged from deliberate strategies of state-corporate engagement across the two countries. By 2009 Malaysian companies had a stake in 162 Indonesian plantations, holding around a third of Indonesia's total oil palm land bank (Varkkey 2013). A recent estimate is that oil palm plantations owned by Malaysian companies account for between 1.5 and 2.0 million ha or 18–25 per cent of the total plantation area (Jamaludin 2014).[5] While for the most part these ownership structures remain opaque, we can gain insights into this phenomenon through studying particular companies. A prominent example of the contemporary complexing between Indonesian, Malaysian, and Singaporean interests is the plantation company Bumitama Agri, founded by billionaire Indonesian, Lim Hariyanto Wijaya Sarwono, which controls a 200,000 ha land bank in Indonesian Borneo and has a market capitalization of USD 1.3 billion. After it was listed on the Singapore Exchange, oil palm giants Wilmar and IOI Corporation gained significant stakes in Bumitama. Wilmar, Asia's largest agribusiness group, is a Singapore-based company with North American and EU investors among its shareholders. Wilmar buys over half of Bumitama's crude palm oil and palm kernel oil. IOI, headed by Lee Shin Cheng, one of the wealthiest figures in Malaysia, also engages in several joint ventures with Bumitama in Indonesia. Bumitama thus taps into IOI's significant technical expertise, IOI buys Bumitama's palm oil at a discounted rate, and Bumitama also finances the capital expenditure of IOI subsidiaries (Friends of the Earth US et al. 2013).

Within this structure, state and private capital are intertwined with domestic oil palm sectors in multiple ways (Chapters 2, 6, and 13). Alliances with Malaysian companies have enabled Indonesian companies to upgrade their position within global value chains by accessing technologies and thereby improving their productivity—particularly important following the withdrawal of the Indonesian state from research and development activities after 1998. For its part, the capital-rich Malaysian state and corporate sector, through joint ventures with Indonesian companies, gains access to land for expansion, a low-cost labour force, lax social and environmental regulation, and a large domestic market. These structural co-dependencies and mutualities are sustained by personal and industry-based social networks and relationships. These encompass sets of actors who can facilitate access to markets, distribution systems, finance, and perhaps most importantly, plantation and other permits that provide access to land and timber. As noted in Chapters 1 and 2, they include retired senior officials and military personnel as directors and advisors, local strongmen and the relatives of local politicians who also perform advisory and brokerage functions, and, in some cases, serving politicians and officials (Varkkey 2013, 2015). The relationships are also expressed through industry associations that play a key role in decision-making. Indeed, these links continue further afield—state actors and domestic producers coalesce in a wider pattern of alliances with multinational corporations that are proliferating globally (Dauvergne and Neville 2010).

The political settlements at the heart of the complex also extend down to the local level where generic policies are translated into specific outcomes. Our evidence shows that smallholder-friendly policies and scheme designs are a necessary but not a sufficient means of securing inclusive and pro-poor outcomes. Even when the same scheme design is applied, livelihood outcomes can differ markedly (Chapter 4). To analyse outcomes in a particular case we need to understand politics "of the quotidian sort"—the everyday politics that involves "people embracing, complying with, adjusting, and contesting norms and rules regarding authority over, production of, or allocation of resources and doing so in quite mundane and subtle expressions and acts that are rarely organized or direct" (Kerkvliet 2009: 232). Thus, the working of social relations within a scheme, village, or plantation context—operating together with the formalized institutional arrangements imposed from above—shapes the degree to which farmers

and plantation workers access the stream of benefits derived from oil palm production (Chapter 7). For instance, micro-level negotiations between plantation representatives, village leaders, and farmers determine to a significant degree the terms of smallholder inclusion in contemporary joint-venture schemes in both countries. In particular, these can affect the amount of land taken over by the company (or set aside in enclaves), the amount of land subsequently returned to farmers as productive oil palm or left available for food crops, and the availability and conditions of employment on the plantation (Gillespie 2010; Chapter 9). Such negotiations can also shape the benefit-sharing arrangements that determine the degree to which smallholders obtain the significant benefits from managing their own plots or are relegated to the status of shareholders receiving very small monthly payments and (perhaps) daily wages (Chapter 11).

In sum, political settlements and accommodations around oil palm at various scales shape the prospects for economic growth and poverty reduction, the quality of services to the poor, the possibilities for upgrading smallholder production, and the level of resistance and conflict on the frontier. Shifts in these political settlements, brought about by changes in the relative power of the dominant actors, can account for the trajectories of the oil palm complex that we have described in this book. Drawing on the preceding chapters, Table 14.1 summarises what each class of actor has brought to the complex in terms of interests, obligations, perspectives, and assets or capabilities (including land, labour, finance, knowledge, and—crucially—power). These positionalities provide the basis for a relational understanding of the varying ways in which the actors have combined over time and across scales to produce the patterns and outcomes identified by the contributors to this book. We now briefly elaborate on the ways in which this complexing has produced particular trajectories, focusing on recent developments.

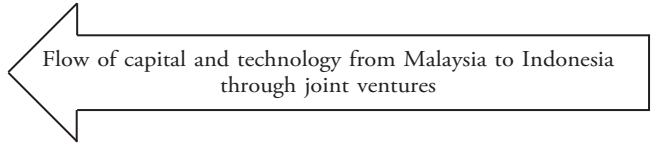
CONVERGENCE ON THE PLANTATION MODE

The shift in the dominant policy narratives to market-liberal (and nationalistic) arguments for unfettered growth and expansion has served to justify and facilitate the flows of Malaysian capital and Indonesian labour into the plantation cores and forest frontiers of both countries —and signalled a retreat from previous support for small-scale family

Table 14.1. Actors and positionalities in the Indonesia-Malaysia oil palm complex

Actors	*Indonesia*	*Malaysia*
National governments	Continued need to reduce rural poverty and encourage agricultural exports. Under pressure for environmental record, especially deforestation, forest fires, and transboundary haze. Politically aligned to economically powerful business conglomerates. With limited fiscal resources and slower growth after 1998 financial crisis, shifted to private sector-led development. Accommodating Malaysian investment in Indonesian plantations. Regulation of recruitment and deployment of workers on Malaysian plantations.	With decline of rural poverty, shift from emphasis on state-led rural development to market liberalisation policies favouring private sector; some factions still pursuing smallholder programs. Politically aligned to economically powerful public and private business conglomerates. Central to "palm oil industrial complex", driving R&D, industry promotion, and government-linked plantation companies. Facilitating agribusiness investment in Indonesia. Facilitating formal and informal labour migration from Indonesia (and elsewhere) to keep costs low.
Local governments	Since regional autonomy, districts actively attract investment, facilitating investor-friendly arrangements to maximise revenue, rents, and patronage. Allow companies to negotiate access to customary land directly with communities. Variable commitment to smallholder interests, most provide large areas for plantations, while a few pursue smallholder-friendly programs.	States have always controlled land and forests within the Federation. Bornean states encourage plantation companies to invest in their jurisdictions to increase revenue, rents, and patronage. Devised instruments to bring customary land and forest reserves into plantation sector. Discourage smallholder expansion to leave large areas intact for plantations.

Table 14.1. Continued

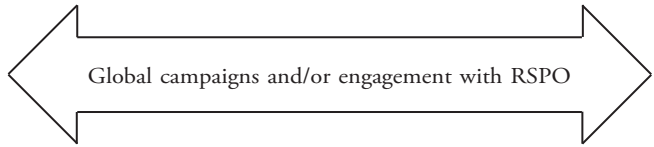
Actors	*Indonesia*	*Malaysia*
Rural development agencies	Shifted from supporting or managing smallholders (resettled or in situ) in partnership with state or private plantation companies, to allowing companies to establish joint ventures with landholders. Ministries of Agriculture and Transmigration and decentralised agencies have limited capacity to provide support for smallholders.	Shifted from directly supporting or managing smallholders (resettled or in situ) to becoming state-owned or privatised plantation companies. Some agencies partner with private companies to enable access to state and customary land.
Plantation companies	Convergence between state-owned and private plantations in mode of operation ("plantation complex"). Need capital and technology from Malaysia (and Singapore). Push for flexible plantation labour rather than plasma smallholders. Work with state actors at district level to acquire land and enforce control. Acquiring rights to timber and land banks an added incentive. Some large corporations investing in corporate sustainability.	Convergence between state-owned and private plantations in mode of operation ("plantation complex"). Need cheap, flexible labour force for Malaysian plantations. Need "unencumbered" land in Malaysian Borneo and Indonesia for expansion. Acquiring rights to timber and land banks an added incentive. Some large corporations investing in corporate sustainability.
		
Independent smallholders in oil palm zone	Some NES/KKPA plasma farmers have evolved into progressive or prosperous independent oil palm smallholders. Some successful smallholders have emerged independently around plantations.	Smallholders in oil palm zone have planted independently, some with government assistance, taking advantage of established infrastructure and diversified livelihoods.

continue overleaf

Table 14.1. Continued

Actors	*Indonesia*	*Malaysia*
Rural households in managed smallholder or NES/KKPA schemes	Following the end of state support for the nucleus estate model, landowners often compelled to cede management of plots to the estate; depending on the benefit sharing arrangement, they can be hired back as labour and receive a share of profits.	With diversified livelihoods, additional land, and secure tenure, many landholders prefer to cede management of oil palm to agency and allow employment of migrant workers. Land effectively "capitalised", generating a dividend.
Rural households in joint-venture or partnership schemes	Terms of inclusion leave participants with insufficient productive land, reinforcing pressures to work as plantation labour, diversify livelihoods, and/or migrate.	Poor financial performance due to perverse incentives for companies. Uncertainty over agreements and tenure. Significant opposition and organised resistance.
Rural households on fringe of oil palm zone	Without technical and financial support, often locked into low-productivity oil palm and other insecure livelihood options. Many susceptible to loss of land through indebtedness and livelihood shocks.	Independent and group smallholders have emerged within catchment area of established mills. Various small-scale contractual arrangements have emerged (e.g., mechanised land clearing, land rental, fruit collection points).
Rural households outside oil palm zone	Main source of migrant labour to plantation zones in Indonesia and Malaysia. Migrant work considered preferable to poverty at home, particularly in marginal areas of eastern Indonesia.	Diversified livelihoods with increasing importance of non-farm sources of income. Outmigration of younger generations.
	Flow of Indonesian legal and illegal migrant labour to Malaysian private and public plantations	

Table 14.1. Continued

Actors	*Indonesia*	*Malaysia*
Urban-based small- to medium-scale investors	Use professional or business income to develop small to medium holdings. Use networks to buy/rent land and employ labour, with intermittent supervision. Widespread in Sumatra.	Use professional or business income to develop small to medium holdings. Use networks to buy/rent land and employ labour, with intermittent supervision. An emerging trend in Malaysian Borneo.
Advocates/civil society groups	Many active groups in post-Suharto era. Framing oil palm disputes in terms of indigeneity, peasant resistance, land rights, and environment. Constrained by lack of resources, capacity, and collective action problems. Little attention to smallholder production problems.	Constrained by state surveillance and threat of retribution. Focus on customary land rights and challenging governments and corporations through court system. Partly effective in establishing recognition for customary tenure and overturning some plantation leases.
		

farmers as the focus of rural development (McCarthy and Cramb 2009). This has gone hand in hand with the rapid rise in the wealth and power of large state-owned and private agribusiness corporations, some of them building on their previous investment in plantations, some using their timber wealth as a platform for expansion into the oil palm sector and beyond, and many now accessing share capital and finance from the region and further afield. For these corporations, accumulating wealth means not only maximizing the private return from each hectare planted but also maximising the rate at which the company's investments and operations grow.

The shift in policy narratives and business strategies has resulted in a convergence, from various starting points, on the estate mode of

production or "plantation complex"—large-scale, centrally managed production entities with a pool of compliant, low-cost labour (Chapter 2; Kaur 2014). This is not the result of any inherent technical or economic superiority of the estate mode but the outcome of explicit policies to provide virtually unlimited access to land at low cost and to maintain the "precarity" of the large pool of migrant Indonesian labour (Chapters 6, 11, and 12; Pye et al. 2012). Financial modelling has shown that, in this context, plantations provide the highest return on private investment compared with a variety of arrangements involving obligations to smallholders (Chapter 2). With cheap land and labour, and weak regulation, extensive rather than intensive growth has clearly been the preferred agribusiness strategy. There are important additional incentives in that merely controlling a potentially productive land bank, even without developing it, adds to the company's book wealth and provides access to valuable timber. The alignment of business strategies with state policies thus helps explain the continuing rapid expansion of plantation area at the expense of customary landholders, oil palm smallholders, and the forest estate.

Many companies have acted on the assumption that they can indeed proceed without hindrance, especially on customary land in Malaysian and Indonesian Borneo, often underestimating the costs of dealing with the resistance that this approach engenders. The grievances that arise characteristically involve disputes between local people and a coalition of state and business actors and their agents and (in Indonesia) the military (Lucas and Warren 2013). While there are many sources of these grievances (Chapter 8), the underlying drivers are largely structural—they are a systematic consequence of state policy and legislative frameworks. The way statutory law frames the processes across the complex reflects historical legacies that both institutionalise prior practices and reproduce them (Hudson and Leftwich 2014).

Given the broader legal framing of customary entitlements under Malaysian law, civil society actors in Malaysian Borneo have at times successfully sought redress for landholders through the legal system. In contrast, Indonesia's legal heritage provides only weak protection to customary landowners. Recent court decisions and legislation to recognise "customary forests" and "communal rights", as well as efforts by civil society actors to implement "free, prior and informed consent" provisions, indicate some progress towards protection of customary

land rights. However, there remain considerable obstacles to landowners exerting effective control over their land. In many contexts, the manipulation of customary norms and structures has shaped the poor developmental outcomes experienced by smallholders and reinforced the plantation mode (Chapter 10).

Given the key role of land in rural livelihoods, these unresolved land grievances remain a key driver of conflict. A review of agrarian development across Southeast Asia found that the "main cases of impoverishment of significant numbers of people involved displacement from land and other productive resources in the face of rapid wealth generation through capital intensive extractive enterprise, combined with a lack of access to other agrarian and non-agrarian livelihood opportunities for those who were displaced" (De Koninck et al. 2012: 34). As suggested in Chapter 6, the large-scale acquisition of land resources for plantation development by corporate entities that has occurred throughout the complex, and the absence of adequate legal and regulatory protections, resonates with the global "land grab" phenomenon (White et al. 2012), albeit with a distinctly domestic (or intra-regional) focus.

The capacity of the plantation sector to absorb labour has been used to justify the rapid expansion of this mode of production. It is true that, in some settings, plantation work can provide a means for poor rural households to diversify their livelihoods and thus improve their resilience. However, it has been documented for Asia and Africa that reliance on agricultural labour markets alone will not significantly reduce rural poverty (Otsuka et al. 2010). Moreover, international and national NGOs have documented the poor working conditions of oil palm plantation workers, claiming widespread violations of basic international labour norms, including labour trafficking, child labour, unprotected work with hazardous chemicals, and long-term abuse of temporary contracts (International Labor Rights Forum and Sawit Watch 2013).

Though the National Union of Plantation Workers (NUPW) in Malaysia has made slow gains in terms of employment conditions (e.g., monthly minimum wage, security of tenure), Malaysian Indian workers remain locked into poverty within the plantation complex. Furthermore, their bargaining position has been worsened by the influx of non-unionised guest labour since the oil palm boom began (Kaur 2014). In Indonesia, the Plantation Workers' Union (PWU)

was crushed in the bloody aftermath of the 1965 crisis that brought General Suharto to power. This and the increasingly fragmented geography of the plantation sector have rendered plantation workers powerless to organise, even within the one plantation. The trend towards a largely casualised labour force, for the most part formed by migrant labourers on piece rates and local women on daily wages, further weakens workers' bargaining position.

As the wages and conditions on such Indonesian plantations are usually worse than on Malaysian plantations, migrant labourers continue to travel to Malaysia. Nevertheless, Indonesian workers in Malaysia obtain two-thirds of the standard Malaysian wage, and only a third of that if they are not registered. They may well work seven days a week, living in barracks on the estate with few facilities, and forming a highly flexible, unprotected, "precarious" workforce (Chapter 12; Pye et al. 2012). Pressure from civil society groups has brought about important legislative responses from both governments. In particular, the Indonesian government's demand for better wages led to Malaysia recently raising the minimum wage for foreign workers, despite the protestations of plantation associations about rising costs and declining profitability. Of course, this makes the role of the irregular or illegal migrant circuit even more important in keeping the current labour regime in Malaysia in place (Chapter 12; Pye et al. 2012), further reinforcing the plantation complex.

SMALLHOLDER RESURGENCE

At the same time as private companies and public agencies have converged on the classical plantation mode, there has been a resurgence of independent smallholders (and the emergence of medium-scale entrepreneurs) in the established oil palm zones such as the east coast of Sumatra and northern Sarawak; this has occurred despite little external support and even outright opposition from the state-agribusiness alliance. In both countries, the number of independent smallholders has grown rapidly in the past decade.[6] Rather than seeking to prevent oil palm development, as some NGOs advocate, smallholders mostly seek inclusion in the oil palm economy on positive terms (Chapters 8 and 10). This resurgence mirrors the historical experience with plantation crops such as rubber, where the initial dominance of estates has given way over time to vibrant smallholder sectors (Byerlee 2013).

Many small-scale oil palm farmers have indeed found a way "to farm their way out of poverty" (World Bank 2007). However, there is no teleology at work here. Across various chapters in this volume we can see different scenarios at work—the consolidation of prosperous smallholder agriculture, the adverse incorporation of local people into oil palm economies, the migration of villagers to cities while retaining rural smallholdings or shares in oil palm schemes, as well as the emergence of urban or rural "farmers with ties" (*petani berdasi*), mobilizing capital to invest in land while employing others to cultivate oil palm on their behalf (Chapters 2, 4, 5, and 7).

The success of smallholders, in the past as now, depends on how local contextual factors, scheme designs, and structural factors meet, that is, on the "complexing" that occurs at a given conjuncture. The interests, agency, and resistance of smallholders and local communities are clearly critical to outcomes. In addition, there is a range of mediating institutional processes that are subject to social relations within the scheme, village, or plantation context, as discussed above. Table 14.2 outlines how such processes can influence smallholder access to the resources, inputs, and benefits needed for successful engagement with the oil palm industry. In the absence of effective access to the required resources and practices, households on the margins of the oil palm zone can experience adverse incorporation and be locked into low-income trajectories that leave them vulnerable to losing their land, while those on the frontier can be effectively excluded by the expansion of large-scale developments.

A TREND TO PRIVATE REGULATION

Given the widespread failure of state institutions to regulate the excesses of the oil palm complex, civil society groups and some corporations have sought to induce change though "private regulation". At the local level, however, limited capacity, obstruction from state and business actors, and in some cases a focus on unrealistic ideological constructions of landholders' objectives have combined to prevent NGOs from making significant impact on rural livelihoods (Chapters 8 and 10). Yet, where outside actors have brought professional expertise to help articulate and defend customary claims to land, and where the courts provide an alternative avenue to pursue those claims, important gains have been made with far-reaching consequences (Chapter 6).

Table 14.2. Summary of factors mediating outcomes for oil palm smallholders

Resource access	*Mediating institutional processes*
Access to technology	State extension services Company preparation of land and provision of technical assistance Cooperative or other processes (e.g., NGOs, farmer organizations) Contract land development
Access to inputs	Plantation and state nurseries providing high-quality (subsidised?) planting material State, cooperative, and market provision of (subsidised?) fertilizers State regulation of planting material and fertiliser prices and quality
Access to finance	State-subsidised credit arrangements Plantation and cooperative credit arrangements Brokered arrangements with input suppliers and mills for provision of inputs on credit Bank policies to provide smallholder credit Credit unions Informal trade credit
Access to market	Government regulations regarding FFB prices Mill marketing, contracting and pricing arrangements (e.g., quality standards, monopsony arrangements) Infrastructure provision—company and state provision of feeder roads Cooperative functioning Smallholder bargaining power Role of intermediate traders
Land access	Land titling system Governance arrangements mediating plantation access to land Workings of customary or informal authority systems governing land tenure Role of local leadership and plantation actors in meditating negotiation over land arrangements Smallholder scheme design—proportion of land returned to smallholders Land arrangements negotiated between plantation and smallholders regarding title, area of oil palm smallholdings returned
Access to benefits of production	Benefit-sharing arrangements negotiated between plantation company and smallholders Incentives for companies to shift profits to sister companies Arrangements regarding debt repayments

Achieving environmental outcomes has been even more difficult. A powerful political constituency advocating for the enforcement of environmental law and nature conservation has yet to emerge in Indonesia and Malaysia. At the same time, companies make political investments in compliant regulatory environments where widespread rent-seeking continues. For instance, one report noted that "the easiest way [for politicians] to get money for elections is by granting licenses without control" (*Jakarta Globe* 2013). Burgess et al. (2011) noted that during election years deforestation linked to plantation permits in Indonesia rose by 40 per cent. The evidence thus points to a tacit consensus supporting the conversion of forest to oil palm—this dominant view sees economic growth as more important than forest or biodiversity, which are viewed as the concerns of rich nations (Sayer et al. 2012).

However, there is no doubt that significant pressure is being brought to bear on the oil palm complex through global civil society initiatives that have begun to bear fruit. As noted in Chapter 1 and discussed in detail in Chapter 13, the Roundtable on Sustainable Palm Oil's (RSPO) Principles and Criteria address the main criticisms of the oil palm industry, representing both an attempt to institutionalize collaboration among the main actors and a response to state regulatory failure. However, there are three broad issues with the RSPO approach—deficiencies in the scope of its principles; limited enforceability of these principles; and the limited participation of plantation companies and smallholders, particularly on the land frontier in Malaysian and Indonesian Borneo and further east in Indonesia, where the social and environmental issues are at their most acute (Chapter 13).

The central principle of "free, prior, and informed consent" in the RSPO guidelines aims to provide adequate protection to customary landholders. The challenge remains that formal legal structures are yet to provide secure and enforceable rights over customary land in national- and district-level legislation. In Sarawak, as documented in Chapter 6, the state has legislated to restrict the definition of customary land and proceeds to allocate plantation leases on the presumption that the land is not in fact subject to customary rights. Hence "consent", even if it is (technically) "free" and (at least partially) "informed", will never be "prior" to the development commencing.

In Indonesia, customary tenure is even less clearly defined, even following the Constitutional Court's 2012 decision mentioned above. Further, structural inequalities shape local negotiations, while the lack of accountability in village and customary institutions also weakens the bargaining position of landowners. Consequently, even among RSPO member companies, arrangements for land access all too often violate RSPO Principles and Criteria. In 2009, a Unilever executive admitted that, in one way or another, all of the company's suppliers had "technically infringed either RSPO standards or Indonesian law" (*Economist* 2010: 1).

It is clear that "the industry would not have moved so far, so fast, without pressure from green activists," and that companies have learned that "they are vulnerable, politically and therefore commercially, when they do not control the distant ends of their supply chains" (*Economist* 2010: 1). However, Byerlee and Rueda (2015) conclude that expectations that private voluntary standards "will address concerns about the social and environmental sustainability of tropical commodities are too high given their voluntary nature, demand constraints (i.e., the small proportion of demand from high-income consumers), and the challenge of certifying smallholders. It is doubtful that private standards can more than partially compensate for wider weaknesses in state land and forest governance and institutions" (2015: 1318). As a wider body of research suggests, private regulatory frameworks will require a range of factors—such as the power, forms of accountability, and enforcement capacities associated with effective legislation—to change the structures shaping poor social and environmental outcomes (McCarthy 2012).

CONCLUDING COMMENTS

So what is to be done? We stopped short of adding a chapter of detailed "policy recommendations". There is a veritable library of cogent, well-researched papers and reports by various organisations and researchers identifying needed changes to policies and institutions. The broad outlines of what is needed seem clear enough:

- cessation of plantation development in old-growth forest and peatlands and a concomitant focus on increasing land and labour productivity on existing cropland

- effective implementation of regional land-use planning and associated environmental assessments
- enactment of legislation to fully recognise and uphold customary rights to land
- rigorous implementation of the principles of free, prior, and informed consent
- establishment of fully independent and well-resourced judicial avenues for landholders to appeal against unfair land- and profit-sharing arrangements
- dismantling of scheme structures skewed in favour of investors that relegate landholders to minor shareholders with insecure tenure and inadequate livelihoods
- resourcing of proven support schemes for smallholders that give them access to the high-yielding planting materials, inputs, credit, technical advice, and post-harvest infrastructure they need to prosper from oil palm
- ensuring that all oil palm investment is linked to effective rural development policies and broader poverty reduction strategies that ensure effective smallholder inclusion
- legislation to provide plantation workers and their families with the wages, working conditions, and living conditions needed for a decent existence.

Can these outcomes be achieved? The challenge is to avoid seeing the oil palm complex "as a space of invariant logics and autonomic unfolding" (Gibson-Graham 2006: xxi). Alternative models and outcomes are possible, as demonstrated in Chapter 5. McCarthy, Gillespie and Zen (2012) describe cases in Indonesia where local government leaders with a commitment to pro-poor outcomes have used state capacity to pursue smallholder-friendly initiatives, notwithstanding the general pattern of colluding with the often-aggressive initiatives of plantation companies without effective local-level governance.

There are some signs that the balance of power within the complex as a whole may have shifted decisively in favour of more equitable and sustainable outcomes. In the last two years, transnational activism has achieved important shifts in the policies and actions of major producers, buyers, and end-users of palm oil. Leading firms such as Wilmar, Cargill, Unilever and Nestlé have made commitments to cut the links to deforestation, peatland development, and exploitation in any of the palm oil they procure (Poynton 2014). In 2014,

a number of large producers signed the Sustainable Palm Oil Manifesto, which aims to "build traceable and transparent supply chains," to "accelerate the journey to no deforestation," and to "increase the focus on driving beneficial economic change."[7] In September 2014 another joint commitment was made in the form of the Indonesia Palm Oil Pledge, to "find solutions for sustainable palm oil that is deforestation free, respects human and community rights and delivers shareholder value."[8]

The disastrous 2015 fires in Indonesia may have contributed to this new conjuncture, creating irresistible political pressure for structural change from within the region. President Joko Widodo's early return from an overseas trip in October 2015 to tour some of the devastated areas (Figure 14.2), his call for reviewing all plantation permits, and his immediate ban on peatland clearance, including in existing concessions, coupled with the requirement that burnt-out areas be rehabilitated rather than planted with oil palm, was an encouraging response.[9]

Figure 14.2. President Joko Widodo touring smouldering burnt-out landscape in the lowlands of South Kalimantan in October 2015 (Photo: Reuters)

On the other hand, the launching of the Council of Palm Oil Producing Countries in October 2015 suggests that the Malaysian and Indonesian states are galvanising to push back against the pressure from international NGOs and global corporations, emphasising their "right to develop" and capitalising on the acquiescence of their biggest markets—China and India—which have higher priorities than safeguarding Southeast Asian forests and livelihoods. In addition, while excellent private and public regulatory frameworks may have been developed, the problems of implementing these regulations in upstream settings remain acute (McCarthy, Gillespie and Zen 2012). Until national governments build effective capacity to enforce such policies within local (state and district) jurisdictions, where the balance of interests and influence is quite different, doubts will remain regarding the efficacy of national and international policy changes and commitments.

The oil palm complex is continually changing in ways that we have attempted to identify and comprehend in this book and to summarise in this chapter, but how quickly, in precisely which directions, and with what interruptions and reversals, remains to be seen.

NOTES

1. Walter P. Falcon, Center on Food Security and the Environment, Stanford University, pers. comm., 10 Dec. 2014.
2. Edwards 2015; Stephen 2015; Guido van der Werf, Global Fire Emissions Database (GFED), Indonesian Update, 16 Nov. 2015. Available at http://www.globalfiredata.org/updates.html, accessed 17 Dec. 2015. More than 120,000 people sought medical help for respiratory problems caused by the haze and smoke in Indonesia alone (*Jakarta Post,* 8 Dec. 2015).
3. This extends the metaphor of a "complex" by drawing on its meaning in biochemistry—"an entity composed of [loosely bonded] molecules in which the constituents maintain much of their chemical identity" (Dictionary.com, http://dictionary.reference.com/browse/complex).
4. For an earlier account of how such accommodations and settlements shape environmental outcomes in Indonesia, *see* McCarthy (2006).
5. Varkkey's (2013: 382) estimate that "Malaysian investments hold more than two thirds of Indonesia's total oil palm plantation area" appears too high.
6. In Indonesia, smallholders now cultivate 40 per cent of the area under oil palm, with the smallholder area growing by 190 per cent over the last decade (Lee et al. 2014).

7. Sustainable Palm Oil Manifesto, http://www.carbonstockstudy.com/carbonstockstudy/files/80/8043fc8d-1691-4a89-9e60-c87b8375ad22.pdf.
8. Indonesian Palm Oil Pledge, http://www.palmoilpledge.id/en/.
9. Earlier, in July 2015, the new chief minister of Sarawak, Adenan Satem, declared in an interview: "No more plantations. No more encroachment, conversion of natural forests into estates…," which would reverse over three decades of ruthlesslessly expansionary policy under the Taib Government. However, this statement has not yet translated into change on the ground, as highlighted by subsequent evidence of large-scale clearing of peatland forest by BLD Plantations, a subsidiary of the powerful KTS Group (*Sarawak Report* 2015).

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